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ABSTRACT

The Facilitator's Role in Collaborative Rural Development Project began in 1979 as a study of 12 rural development efforts which comprised the North Carolina Rural Employment Laboratory and was expanded in 1980-81 to include rural development in 6 other states (California, Kentucky, Maine, Massachusetts, Oklahoma, and Vermont). A wide range of state and local efforts were examined, i.e., small business assistance programs, innovative developmental finance institutions, industrial parks built by local development corporations, state programs that provide technical assistance to local development, and many others. The projects presented offer a diverse and representative sample of locally initiated economic development efforts currently under way in smaller cities and rural areas. Chapter 1 of the report presents the study's overall approach to economic development in smaller cities and rural areas. Chapter 2 analyzes the three local economic development strategies that were identified through the field work and discusses characteristics of local organizations that have initiated these strategies. Chapter 3 covers state support for local economic development. The second part of the report includes detailed case studies on each of the seven states, followed by a summary of the North Carolina Rural Employment Laboratory and a bibliography. (AH)

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FACILITATOR'S ROLE IN COLLABORATIVE RURAL DEVELOPMENT: THE NORTH CAROLINA RURAL EMPLOYMENT LABORATORY

Final Report

Submitted to

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Employment and Training Administration
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by

MDC, Inc.
Post Office Box 2226
Chapel Hill, North Carolina

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Facilitator's Role in Collaborative Rural Development: The North Carolina Rural Employment Laboratory

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PART ONE

PREFACE

This is MDC's final report to the Office of National Programs, United States Department of Labor, on a project entitled "Facilitator's Role in Collaborative Rural Development." The project began in 1979 as a study of twelve rural development efforts which comprised the North Carolina Rural Employment Laboratory. It was expanded in 1980-81 to include rural development projects in six other states.

The first-year final report (May 1980) and subsequent interim reports (November '80 and May '81) provide detailed analyses of the North Carolina Rural Employment Laboratory projects. MDC acted as a facilitator in the implementation of several of those projects while monitoring their progress over a two-and-one-half year period. Since most Rural Employment Laboratory projects were initiated by federal or state government and involved intergovernmental linkages as a major theme in their implementation, MDC's reporting concentrated on inter-agency coordination.

One of MDC's conclusions from its experience with the Rural Employment Laboratory was that local initiative is a key factor in successful rural development projects. Several of the Rural Employment Laboratory projects that were initiated by federal or state government failed or floundered because of the lack of local support. This conclusion, combined with the current climate of reduced federal spending and the movement to give states more control over federal assistance programs, led MDC to choose a different focus for its final six months of work and for this final report.

In these days of tight budgets and reduced federal presence in rural development affairs, it is important to identify economic development strategies for smaller cities and rural areas that can be effective without massive infusions of federal dollars. Yet MDC's review of the literature on economic development in smaller cities and rural areas found a conspicuous absence of information on such strategies. Consequently, MDC set out to identify model rural development strategies which can be initiated locally or by the states and which can survive through local support.

This quest took us to six states (in addition to North Carolina) that offer examples of locally initiated economic development efforts and state support for such efforts. The states are California, Kentucky, Maine, Massachusetts, Oklahoma, and Vermont. In each state, MDC interviewed state officials and staff of local development organizations. A wide range of state and local efforts were examined -- small business assistance programs, innovative developmental finance institutions, industrial parks built by local development corporations, state programs that provide technical assistance to local development organizations, and many others. The projects presented are not necessarily the best examples of local economic development activity going on in the country, but they offer a diverse and representative sample of locally initiated economic development efforts under way today in smaller cities and rural areas.

Learnings from projects in all seven states together with the researchers' collective experience in the fields of employment and training and economic development (including extensive work with government and community-based organizations and academic research and teaching in the area of economic development) have served as the basis for analysis and assessment of locally initiated approaches to economic development. The approaches studied share several characteristics. They tend to be modest in scale and to concentrate on strengthening the local small business sector. Most were initiated by local private nonprofit organizations with close ties to both local government and the business community. Almost all of the activities studied received support from either state or federal government, since they involved efforts to lift a local economy above the level of development attainable through private investment alone. Finally, several of the projects were targeted toward maximizing local control of economic activity.

The study's findings relate both to local economic development strategies and to state support for such strategies. Part I -- the body of the report -- consists of three chapters. Chapter I presents the study's overall approach to economic development in smaller cities and rural areas. Chapter II analyzes three local economic development strategies that were identified through the field work and discusses the characteristics of local organizations that have initiated these strategies. Chapter III treats state support for local economic development. Part II of the report includes detailed case studies on each of the seven states. It is followed by a summary of the North Carolina Rural Employment Laboratory and a bibliography.

I. INTRODUCTION AND OVERVIEW

Contrasts in Development

The following tale of three cities is presented to illustrate the varying economic development problems faced by smaller cities and rural areas and the variety of possible responses to those problems. The three cities -- Stoney Road, Elvira, and Triple Creek -- are not real places, but composites drawn from a number of actual smaller cities around the nation.

Stoney Road was once a rapidly growing northern city. Between 1870 and 1900, its population doubled each decade. But since World War II, its population has declined slowly to its present level of 25,000.

In the old days, Stoney Road had many busy stores, restaurants, and hotels in its downtown area. Customers came from the town and the surrounding areas, and from the trains that stopped twice daily on their way between Boston and Chicago. The town was known for its diverse manufacturing base, its skilled work force, its transportation system, and its excellent public schools.

Today, some say that Stoney Road is dying. They point to its high unemployment, its dated manufacturing facilities, its low-technology product lines, and its downtown businesses, losers in the fight with the modern, regional shopping mall. They also note the closing or contraction of three major factories in town. One, an electronics manufacturer, closed after forty years of operations and laid off 1600 workers. A modern electronics facility was opened by the same parent corporation several years later in central Canada. A second manufacturer, a producer of farm equipment, was purchased by a Chicago-based conglomerate and then resold to an Arizona corporation. Though the plant now operates at greater efficiency because of modernized equipment, its work force is smaller than it was before the sale. The third manufacturer, a local family-owned producer of outdoor recreation equipment, was founded more than seventy years ago. Despite its stability and modest profitability, the company's market share has fallen in the last decade because of dated business practices and insufficient product development.

Last year, Stoney Road was one of several finalists vying for the siting of a $400 million, 1.5 million square foot engine plant to be built by a national corporation. That competitive place was secured only after the county industrial development agency had devoted thousands of staff hours to assembling a bidding package for the plant and after the state had offered $150 million in incentives. The company, however, chose to build at a Sunbelt site after considering almost 200 alternatives.

Again, some would say that Stoney Road is dying. But, as with Mark Twain, reports of the death of Stoney Road are greatly exaggerated. Despite the appearance of economic decline and in the face of actual competitive losses, local businesspeople, labor officials, and civic leaders are working together, convinced that Stoney Road can have a sound economic future. An economic development committee, supported by county staff, has been formed. Several committee members approached the state for a seed grant -- a small fraction of the $150 million in incentives that the state had offered to the large corporation. Though the state declined, Stoney Road's leaders have not been discouraged. Stoney Road, they say, is a good place to work, to live, and to raise a family. A local banker took that feeling a step farther: "More and more, we are learning that we have to depend on our local people and our local companies. That's our future."

More than 500 miles to the south of Stoney Road is Elvira, the site finally selected for the $400 million engine plant. Though troubled by dislocations in the area's agricultural and forestry sectors in the 1950s and '60s, the city of 30,000 has since been growing rapidly. An expanding number of branch manufacturing plants supports an affluent business community, and real incomes are generally rising.

Yet Elvira still has its problems. Though the engine plant will offer a large number of jobs at wages slightly above existing levels, the average wage of production and service workers in town is still below the state and national average. Most families have two adults working full-time to make ends meet, and in the last few years, layoffs have become more frequent. Housing prices and rents have gone up sharply with the city's growth, and more and more people are living in less expensive outlying areas and commuting to Elvira on increasingly congested highways. Local tax rates have increased, partly because of generous tax incentives given to the branch plants and the extension of expensive infrastructure to serve new industrial facilities and partly because of population growth. Local employers have been less than pleased with the "raiding" practices of the new engine plant; many of their most experienced workers are moving to better jobs at the new facility.

The local newspaper attempts to articulate the growing discontent in Elvira. Though economic growth has certainly solved many of the problems faced by Elvira in the 1950s and 1960s, it has at the same time created new problems. A recent editorial concluded: "Bigger does not always mean better. Steps must be taken to improve Elvira's quality of life."

The editorial reflected a growing concern in the community. Several of Elvira's leading citizens, at the behest of the local chamber of commerce, began discussing the town's future, and particularly the relationship between community development and industrial development. Subcommittees were formed to consider, among other matters, methods of distributing the tax burden more equitably and options for developing a moderate-income housing and neighborhood commercial project. A locally oriented development process seems to be under way.

In another part of the country lies Triple Creek, a county seat of 10,000 people. Triple Creek suffers neither the growth pangs of Elvira nor the economic decline of Stoney Road. Triple Creek, like many other towns around the country, has for a long time experienced neither growth nor decline. Basically, it has a stagnant economy; it is isolated from national markets because of its distance from interstate highways and the regional airport. There is a good deal of farming in the surrounding area, and Triple Creek has always served as a market center for local farmers. It has retail and wholesale stores, financial services, maintenance and repair operations geared toward agriculture, and the variety of personal service establishments found normally in smaller cities. Of course, the county government and the county schools are among the largest employers in the area. Not surprisingly, most of the more ambitious young people who grow up in Triple Creek leave after graduating from high school.

The residents of the area correctly see that outside companies are unlikely to discover their community and invest in it. For better of worse, they have learned to get by on the basis of their own initiatives and resources. The local development organization in Triple Creek recently hired a creative new director. That person has formulated a realistic strategy for local economic development that builds on a series of modest projects. Taken individually, the projects will neither create large profits nor significant expansion of jobs and local business opportunities. But taken together, over a period of time, they will strengthen the economy and help make Triple Creek a better place to live and work.

The Argument of the Study

Stoney Road, Elvira, and Triple Creek are fictitious places. Yet their experiences are not uncommon in the smaller cities and rural areas of the United States. People living in the Stoney Roads are realizing that competing for large-scale industrial prospects can be an expensive, risky, and ultimately unrewarding effort. The residents of the Elviras, while enjoying the benefits of economic growth, are also becoming aware of its costs. They are coming to realize that while industrial development may solve some of their old problems, it often creates new ones.

Both communities are beginning to understand what the people of Triple Creek have known all along: that they must take a new look at the talents and resources available at home, and that they must rely increasingly on their own initiative in dealing with local economic problems. In a very real sense, this direction harks back to the approach taken in the early days of the nation -- the building of the national economy from the ground up through local economic development, and not the other way around.

Yet the leaders of the Stoney Roads, Elviras, and Triple Creeks need more than realizations and new directions. They need a clear understanding of the economic development process and of means of implementing it in smaller cities and rural areas. They need to know how their local organizations can be better utilized to bring about local economic development. They need fresh insights about supportive roles for government, particularly state government. That necessary knowledge base is the subject of this study.

This study identifies economic development strategies that have proved effective in smaller cities and rural areas and suggests how state government can support the strategies and keep them viable in the face of reduced federal assistance. This chapter touches on both our approach and our findings. First, it offers a definition of economic development and discusses the smaller city and rural context and its implications on economic development strategies. It then introduces the study's findings on local economic development and on the state role in supporting local efforts.

Definition of Local Economic Development

Before state or local actors try to influence local economic development, they need a clear notion of what they are trying to achieve and an understanding of how economic development occurs. Economic development within a community is shaped by the plans and actions of business entities, with various important forms of involvement by the public sector. This study is concerned with local economic development -- with the ways in which local businesses, community-based organizations, and state and local governments can influence economic activity in order to benefit the people living in a particular locality. To guide our assessment of the several actors' efforts to shape local economic development, the following definition is proposed:

> Local economic development is a process that increases income, employment and self-employment opportunities, and net tax revenues; improves the long-term stability of the local economy; improves, or at least maintains, the local quality of life and work; and otherwise enhances the well-being of the local population.

Several points in elaboration of this definition may be helpful. First, the definition views economic development as a broader construct than simple economic growth. Economic growth reflects only the quantitative aspects of development. It is technically defined as the overall increase in output or production for a period of time. When local production increases, there are generally more jobs, more income, more sales and bank deposits, more local construction, and more tax revenues. But economic growth also involves economic forces that can eliminate existing jobs, force business contractions, increase government expenditures, and drive up local living costs. Economic growth, then, contributes to economic development when there are positive quantitative effects on a net basis -- more jobs gained than lost, more business start-ups and expansions than contractions and failures, tax revenues in excess of tax expenditures, and higher real incomes.

Another component of economic development which is sometimes viewed as synonymous with the whole is industrial development -- that is, growth and change in local manufacturing activity. Manufacturing growth is viewed as developmental because new manufacturers usually increase an area's export base, provide more jobs at higher levels of productivity, and, through multiplier effects, expand local business and employment opportunities. Like economic growth, though, industrial development can produce both positive and negative effects. For example, new industry may increase productivity, but at the cost of local jobs; it may create sales opportunities for some, but eliminate them for others; it may have a negative impact on the environment. Industrial development has a major positive impact on local economic development when it diversifies the local industrial mix or helps local companies become more innovative and growth-oriented, as both of these changes increase the area's long-term economic viability.

While economic growth and industrial development are important, the definition of local economic development presented here goes beyond them. Just as sophisticated corporate officials consider many objectives in addition to profits, efficiency, and growth, public officials and citizens need to ponder a broader range of economic development concerns.

Local citizens and public officials are concerned with developing a stable or moderately growing tax base. They have a long-term stake in the viability of the local economy and advocate development that improves, or at least maintains, the quality of life. Citizens favor better employment and self-employment opportunities, adequate compensation, reasonable hours and working conditions, job security, career advancement possibilities, and other quality-of-work improvements. While they would support higher income, they also want to purchase wholesome, safe, and durable products. While preferring participation in the economic mainstream to isolation, people still value self-reliance and autonomy ("taking care of myself" and "being my own boss"). While people value the man-made environment, they also want to protect the natural environment and use natural resources wisely so that those resources will also be available to their children.

When taking these additional concerns into account, the qualitative changes that must inhere in genuine local economic development become apparent. In planning for local economic development, the viability of the local economy, the quality of work, and, more generally, the quality of life are as important as economic growth or industrial development.

Finally, it is important to understand that various groups can support the same set of local economic development objectives for quite different reasons. The creation of employment opportunities may be taken as a case in point. Most members of the business community view job creation as a means of expanding the local market for their products and nurturing overall economic growth. Public officials, in contrast, might see job creation as a step toward expanding the local tax base and as a positive contribution to the long-term economic stability of the area. Finally, most citizens would look on new jobs as a vehicle for attaining more income, greater well-being, and -- possibly -- an improved quality of work and life.

The Context of the Study

This study focuses on economic development in smaller cities and rural areas. Such areas have particular characteristics that must be taken into consideration in designing economic development strategies. First, many of these areas are dependent on a single aspect of the natural resource base and thus are particularly vulnerable to changes in global demand, to technological innovation, and to depletion of the resource base. Second, they are marked by dispersed residence patterns. Third, they often lack the infrastructure conducive to development of manufacturing industries -- water and sewer systems, highways, airports, and the like. And fourth, many smaller cities and rural areas are lacking in information, technical skills, and administrative capacity and thus are more dependent on assistance from state government than are large cities.

Because of these characteristics, smaller cities and rural areas lend themselves most readily to small-scale development projects. In the rural context, large-scale projects are likely to occur only when they are initiated by large corporations or by large government. Even in places where large-scale projects can be mounted, they are not always desirable. They can easily overwhelm an area, straining public services and community facilities, taxing the natural environment, causing a flood of in-migration, and drastically changing the fabric of the area's social and cultural life.

Although smaller cities and rural areas share a set of defining characteristics, they vary greatly as well. This point is amply demonstrated by the seven areas included in this study -- northern California, eastern Kentucky, southeastern Oklahoma, northern Vermont, the coast and mountains of North Carolina, western Massachusetts, and rural Maine. Each of these areas is the subject of a case study presented in Part II of this report.

The relative status of smaller cities and rural areas in their respective states is one point of variation. Kentucky and Vermont, for example, are primarily rural states in which the rural voice is heard clearly in the halls of the legislature. California and Massachusetts, on the other hand, are highly urbanized, generally affluent states in which rural interests have more difficulty in being heard. Though most of the areas studied are sparsely populated and distant from large cities, the range in degree of isolation is wide indeed. A hollow in Appalachian Kentucky is simply less accessible than any town in eastern North Carolina.

Growth is another dimension along which the seven areas vary. Northern California, Vermont, and western Massachusetts have experienced population growth in the past few decades, partly because of the in-migration of educated and skilled urbanites. Eastern Kentucky and southeastern Oklahoma, on the other hand, have grown little, if any; their populations remain stable, indigenous, and homogeneous. Some of the people in the seven study areas are the steadfast heritors of the independent yeoman character; others remain dependent on a quasi-paternal employer or government. Residents of the lumber towns in northern California and the coal counties of Kentucky exemplify this latter condition.

California and Kentucky are the two areas most dependent economically on single aspects of the natural resource base -- lumber for one, coal for the other. While northern California's concerns stem mainly from depletion of its chief resource, eastern Kentucky worries about the eventual end of the coal boom and about the shorter term of cycles within the boom. Though Vermont has a rich resource base, it is a small one, and its forests and farmland are contested by recreational developers and manufacturing firms, by preservationists, and by groups that would marshal the state's forests as an energy resource. Other areas have scant natural resource bases upon which to build -- southeastern Oklahoma being the best case in point.

The seven areas also differ considerably as to degree of reliance on manufacturing. North Carolina's smaller cities, for example, continue to support themselves on their enduring -- if low-paying -- manufacturing base. The state's strong and generally successful industrial recruitment efforts focus on attracting higher-paying industry to North Carolina. Maine, by contrast, though heir to a traditional manufacturing base, is struggling to keep its manufacturing firms and jobs.

Vermont, though formerly an agricultural state, has succeeded in developing a manufacturing sector in recent decades. Other areas -- Oklahoma, for example -- have never had a significant manufacturing base, though not for lack of trying.

Some of the areas studied are under strong pressure from recreational developers; for others, such pressure is important in only a few scattered sites. Some of the areas have strong environmental constituencies, so that industrial development is hotly debated and often strongly protested; other areas are quieter on the environmental question, though their environments may be just as seriously threatened.

Attitudes toward regional and state government also differ drastically among the seven areas. California is a home-rule state -- regional governments are rare, and state government is more tolerated than trusted. Vermont, on the other hand, has an active system of regional organizations which act as conduits between the town governments and state government.

In sum, the seven areas studied offer a fair expression of the considerable diversity that exists among the smaller cities and rural areas of this country. For purposes of considering economic development strategies, six types of variations should be kept in mind. First, the economic base of the area must be considered: its vitality, its diversification, its reliance on manufacturing, its natural resources, the strength of its small business sector. Second, the variety and sophistication of the population is important -- an area close to a university or an area that has had considerable in-migration is likely to have more diverse human resources than a more isolated, closed area. Third, the geographic characteristics of the area -- its accessibility, its expanse -- must be taken into account. Fourth, the degree of local support for economic development activity is important; as is, fifth, the attitude of the populace toward regional and state government. Finally, the capacity of existing organizations for facilitating and initiating economic development is crucial.

Local Economic Development Strategies

Within the context of smaller cities and rural areas, this study identified many projects that fit our definition of local economic development. These projects represent a locally controlled, community-based approach to economic development. They build on resources that already exist in the local economy -- natural resources, existing business activity, and, most importantly, the talents, skills, and energies of the local population. Their underlying strategies concentrate on small-scale projects initiated and guided by people living in the area, often with help from state or federal government or other outside sources. In most cases, project leadership is furnished by a local development organization: a private agency with close ties to both the private and public sectors.

The study found local control and support to be crucial to the promotion of economic development; without committed local support, it is hard to sustain interest in a project throughout the protracted development process. Moreover, local control ensures that community values will be considered in project planning, that the highest level of benefits will accrue to the community from the project, and that local resources and talents will be better utilized in the project. And in the coming years, probable decreases in federal and state assistance will mean that more of the resources necessary for development will have to come from the local community, so that widespread local support will be even more important.

Joint public-private initiative was found to be essential in local economic development projects, since most of the projects entail activities that neither the public sector nor the private sector could carry out independently. Many of the projects are not sufficiently profitable to attract strictly private investment; yet they require an approach that is more flexible and entrepreneurial than the sort public agencies usually take.

Three specific local economic development strategies figure in this study. Under the first strategy -- expansion of existing industry -- a local development organization helps local manufacturing firms expand by providing help with infrastructure, financial assistance, and skills-training. The second strategy -- small business development -- can involve helping existing retail, service, and small manufacturing enterprises stabilize or expand, or helping new ones start up. This strategy is implemented through business counseling and through providing assistance in obtaining financing. The third strategy discussed in this study may be termed new enterprise development. It involves identifying feasible business ideas and seeking people to initiate enterprises based on those ideas, with support from the local development organization.

Each of the three strategies for local economic development is discussed fully in Chapter II.

The State Role

The trend toward block grant funding, however far it is taken, will create new opportunities and responsibilities for states to help localities respond to economic development needs in the 1980s. At the same time, however, state government will be under increasing fiscal pressures. Opposition to tax increases combined with inflation and reductions in federal spending will result in fewer resources with which state governments (and local governments as well) will have to meet growing problems and competing demands. This suggests, of course, that states will have to find better ways to utilize their limited resources.

The traditional state role in promoting economic development centers on recruiting new industry and helping to finance industrial development, with additional incentives for business and industry implicit in the state's taxing, spending, and regulating policies. In recent years, this traditional approach has come under criticism for several reasons. While it sometimes influences corporate location decisions, it does so at a high public cost. In many cases, state government provides financing at below market rates, waives or defers taxes, trains workers at public expense, widens roads, extends water lines, and improves waste treatment facilities, all for a company that might have located in the same area without those incentives. Additionally, since state efforts are targeted to major corporations, they assist companies that need help the least and bypass the smaller, locally owned firms most in need of assistance. Finally, recruitment and industrial development have not been successful in certain types of localities, particularly smaller cities and rural areas that are far from urban centers and remote from transportation networks. Many local development groups in such areas have carried out expensive promotional campaigns and developed even more expensive industrial sites only to end up as the owners of unused infrastructure and vacant industrial parks.

MDC's study sought out models for a different kind of state role -- state support for locally initiated, locally controlled economic development efforts. MDC found four categories of state activities that fit this general description: development of supportive state policy; provision of capacity-building services, technical assistance, and funding for local development organizations; financing for small business development; and coordination. These activities are treated in detail in Chapter III.

Neither the local strategies nor the state activities presented here are intended to represent a complete slate of approaches to economic development in smaller cities and rural areas. Rather, this study concentrates on one general approach to economic development -- an approach based on locally initiated, locally controlled strategies that state governments can play a key role in supporting. Chapters II and III illustrate how local people -- effectively organized, looking within their communities to implement economic development projects, and receiving state government support for their efforts -- can have positive impacts on the economies of the smaller cities and rural areas in which they live.

II. LOCAL ECONOMIC DEVELOPMENT STRATEGIES AND ORGANIZATIONS

This chapter discusses three strategies that are appropriate for locally initiated, locally based economic development activities in smaller cities and rural areas. Taken together, they can be said to represent first steps toward a "new orthodoxy," an alternative approach to traditional economic development that is beginning to gain acceptance in scattered localities around the country. This approach involves creating a climate that nurtures and supports small, locally based businesses and industries which form the backbone of the economy in most smaller cities and rural areas. Depending on the nature of the specific area, its resources and problems, locally based development can usually be achieved through some combination of the three strategies: expansion of existing industry, small business development, and new enterprise development (including development based on natural resources and new products).

The first strategy, expansion of existing industry, is practiced by some of the most successful local development organizations in smaller cities and rural areas that have a solid industrial base to build on. The other two strategies are more innovative, and, having shorter track records, less susceptible to rigid evaluation. Nevertheless, they seem to be viable strategies particularly well suited to smaller cities and rural areas that lack strong industrial bases.

The three strategies are not mutually exclusive; in fact, they can be most effective when pursued in combination. This chapter discusses the advantages of each strategy for smaller cities and rural areas and presents examples of how each has been implemented.

Implicit in this discussion is the assumption that these strategies require a local development organization to initiate and implement them. Local economic development can be a long, protracted process that requires, at the least, strong committed leadership to sustain the effort over time; this leadership can be more effective if it exerts itself through and is supported by a local organization.

The appropriate type of leadership and organization combines the best features of the public and private sectors. The organization's goals are public (e.g., revitalizing the economy, expanding job opportunities, improving the quality of life), and some of its resources are drawn from the public sector, but its structure is private. Neither a strictly private company nor a purely public agency is an appropriate development organization. Public agencies tend to be too political on the one hand (decisions are based on short-run political impact), or too bureaucratic (risk-averse, slow-moving, uncreative) on the other. Private companies are not appropriate agents because their very purpose is to maximize profits and growth potential, while most of the economic development activities that need to be initiated in smaller cities and rural areas are not highly profitable -- especially at first. The best form, then, is a private nonprofit organization, referred to throughout this study as a local development organization. A local development organization might be formed as a community development corporation (CDC), as a local development corporation (LDC), or as a private nonprofit association, federation, cooperative, or multipurpose corporation.

After a discussion of the three local economic development strategies, then, this chapter moves to a more explicit treatment of local development organizations. It analyzes the characteristics of effective organizations and discusses issues related to organizational development.

Strategy I: Industrial Expansion

Rationale

In smaller cities and rural areas that have a manufacturing base, opportunities often exist for expansion of that base through assisting individual companies to expand. The companies under discussion here are distinguished from small retail, service, and light manufacturing firms (discussed below under "Small Business Development") in two major ways. First, they have greater needs for physical capital -- land, infrastructure (roads, water lines, rail spurs, etc.), buildings, and equipment. And second, they are likely to be more stable enterprises, with greater financial solvency and more solid management. Yet they still have trouble financing growth. Consequently, programs to assist expanding industries have evolved into two types -- that which provides infrastructure contributions, and that which provides financing to help companies build plants and purchase equipment. A third type of assistance -- and an underutilized one -- involves the provision of skills-training for a company that is increasing its work force.

In areas that have a manufacturing base and a relatively healthy economy, helping local industries expand can be quite worthwhile. The approach builds on existing investment in the community; it is low-risk, since it targets existing companies of some proven permanence; it can result in the creation of relatively large numbers of jobs; and it bolsters local companies that already have some commitment to the locality. In addition, plant expansions can have significant multiplier effects in the local economy when the expanding firm has links with local suppliers and distributors which can share in its growth.

It should be noted that there is a difference between helping locally based companies to expand and assisting local branch plants of larger corporations with growth plans. While the latter may ask for local assistance, they usually have access to corporate sources of aid; smaller companies which are truly local, however, may face serious obstacles in obtaining financing. Other reasons, too, argue for targeting assistance to locally owned companies. Local ownership often means that the company has ongoing commitment to the community and that it will take community concerns into account in making corporate decisions.

Elements of an Industrial Expansion Strategy

Infrastructure Development: There is a role for the public sector in providing infrastructure for industry, particularly in smaller cities and rural areas where basic facilities like water and sewer service do not exist. Industrial parks make particularly good sense in rural areas from a land-use standpoint because they concentrate industrial activity in a small area and save more land for agriculture, forestry, or other nonindustrial uses. They also make sense economically, especially for smaller companies, since they allow several entities to share the high costs of infrastructure development.

In a healthy local economy, a successful industrial park can often contribute to the psychological climate of growth while at the same time facilitating the actual expansion of small, locally owned companies. A park, however, cannot serve as a panacea for an ailing economy. Hundreds of smaller cities that constructed industrial parks in the '50s, '60s, and '70s -- usually with federal aid -- learned that lesson; they went looking for tenants, found none, and are today the owners of idle, but still costly, infrastructures.

Developing industrial infrastructure makes most sense when it is part of a larger economic development strategy or when it is designed to meet the needs of locally owned plants that have already made a commitment to expand in the area. The results of one such sensible approach may be seen in the Mountain Lakes Industrial Park, created by the Economic Development Corporation of Shasta County (California) in the early 1970s, which today houses 60 firms employing approximately 1200 workers. From the start, local support has been crucial to the park's success. The EDC began its development efforts with a two-and-a-half year educational process, after which it sold $250,000 worth of noninterest bearing, fifteen-year notes to local businesses and banks to provide seed money for the park. The EDC's goal was to provide space for expanding local businesses, and the majority of tenants in the park today are locally based firms, many of which were original purchasers of the 15-year notes.

Part of the park's success hinges simply on the growth potential of Redding, the host city; the park was built in the right place at the right time. Other factors, however, were equally important. The lengthy planning and promotional process ensured that local companies were aware of and interested in the park; EDC thus had tenants lined up to fill spaces in the park early on, and that helped create a positive climate from the beginning. Because of EDA funding for infrastructure development and generous terms from the previous owner of the park property, space was sold at a price affordable to small local industries. The EDC's status as an SBA 502 Local Development Corporation enabled it to offer long-term financing for building and equipment, and the EDC kept the size of lots in the park flexible so as to accommodate firms of diverse sizes and types. Today, the park's tenants employ from six to 250 workers; most employ under 60. And while most tenants are single-plant manufacturing establishments, the park also houses distributors, warehousing firms, and a trucking business.

Federal and state funding have been critical to the development of industrial parks in smaller cities and rural areas. Once a specific park is well under way, private developers often step in. (In Shasta County, for example, the final stage of the park's development was taken over by a private developer who bought the remaining land and is selling it for ten times the EDC's original asking price.) But until a park becomes attractive to private developers, a major subsidy is needed. State development authorities and the federal Economic Development Administration have been the major suppliers of such subsidies. With the effective demise of EDA and of the federally supported regional commissions, it will be harder to finance the development of industrial infrastructure in all but the most fortunate areas.

In sum, industrial parks are worth considering as a means of helping local industries expand, especially if the parks can be developed in conjunction with a financial assistance program. Actual and beneficial expansion, however, is likely to follow on park construction only under certain conditions -- in areas which have a healthy industrial base with potential for growth, and in which local firms and banks have expressed an interest in and commitment to the idea of the park.

Financing: Once an expanding company has access to its basic infrastructure needs, its requirements for growth financing must be addressed. It is well known that many businesses have trouble obtaining long-term loans for land, buildings, and equipment; so it is that financial gap that the public sector has tried hardest to help fill through, for example, industrial revenue bonds and the activities of state industrial development authorities and local development corporations. Another public sector vehicle for responding to capital needs of expanding businesses is the revolving loan fund, discussed below under the "Small Business Development" heading because it is most often used for aiding smaller, less capital-intensive firms.

Industrial revenue bonds (IRBs) are the most popular source of long-term, reduced-interest financing. Although they are a useful development tool, they are rarely accessible to small firms for two reasons. First, the cost of issuing IRBs makes them infeasible for amounts of less than $1 million. And second, since the bonds' marketability depends on the credit-worthiness of the firm, small companies, viewed as greater risks, are at a disadvantage. Often they find themselves last in line for IRB consideration, behind larger companies whose bonds will sell more readily.

In many states, the state industrial development authority offers loans and loan guarantees to expanding companies for land, buildings and equipment. At one end of the range, the state authority might guarantee only a portion of a loan made by a private lender at market rates. At the other extreme are programs like Vermont's direct loan program, subsidized by the state treasury, which lends (at 4% interest) up to 40% of the cost of land, buildings, and equipment for any manufacturing plant locating or expanding in Vermont. Two-thirds of the 100 recipients under that program have been Vermont-based companies expanding within the state, and most have been small businesses for the simple reason that most of Vermont's businesses are small. While the program may be criticized as a giveaway to industry and a burden on Vermont's taxpayers (it has cost the state approximately $9 million since it was instituted in 1974), it is certainly a boon to small firms in times of high interest rates. It enables companies to expand that could not afford to do so if they had to pay the market rate for the full amounts of their loans.

SBA-chartered local development corporations (also called 502 corporations) are key actors in packaging loans and in gaining access to SBA's long-term loans for firms interested in industrial expansion. As noted, the Shasta County EDC was successful in filling its industrial park with local businesses partly because of its ability to package section 502 loans, ranging from $40,000 to $550,000, together with $4 million in larger EDA loans.

In Vermont, where the state provides some funding for staff salaries at LDCs, the LDCs have joined forces with the state industrial development authority to become a major force in helping local industries expand. Under SBA's newer section 503 program, LDCs can gain access to low-interest, long-term financing from SBA and charge a fee for their loan packaging services. This provision is intended to provide support for LDC staff, thereby marking LDCs a stronger development force. It remains to be seen whether fees under section 503 will suffice to support staff positions fully; it is clear, though, that LDCs which have access to other funds for staff costs (like those in Vermont, or the Shasta County EDC) can only increase their effectiveness by tapping into the 503 program.

Training: In most areas, skills-training is an underutilized component of industrial expansion strategy. Where it is in use, it can focus in either of two directions: on the firms, or on the potential workers.

The more common role for training is as a means of meeting the work-force needs of expanding businesses. In some cases, the absence of a prepared work force has caused plants to seek new locations for expansion, and a publicly funded training program can be the link that enables a company to expand locally. The area around Springfield, Vermont, for example, has long been a center for machine tool manufacturing. A few years ago, however, local companies began looking at other areas as possible sites for new installations mainly because there were too few qualified and available workers left in Springfield. Through its state-funded training program for new and expanding industries, Vermont set up a special training program for the machine trades in the Springfield area. As a result, several companies were able to expand locally rather than having to leave the area.

The second role for subsidized training is in helping to ensure that a number of economically disadvantaged people are hired when local industries do expand. This role was central to the CETA-EDA coordination experiments in North Carolina and other states in 1978-80. At best, the experiments had mixed success because of problems resulting from the bureaucratic structure of CETA and EDA programs -- the long lead times needed for project planning, the failure of one set of program administrators to understand the vagaries of the other set's programs, and the like. Nevertheless, if economic development is to benefit the people in greatest need, it makes sense to link subsidized training with job opportunities in expanding industries.

Summary

Under the right circumstances, public support for expanding industries can be an effective approach to local economic development. The right circumstances include a healthy local economy, a solid base of locally owned industries, and local support for industrial development. When these conditions obtain, public assistance with infrastructure development and financing can create the critical mass that enables local industries to expand by making such expansion affordable. The addition of a training component to provide a ready work force and help ensure that economically disadvantaged people benefit from publicly supported growth can give an area the ideal, three-element expansion strategy involving infrastructure development, financial assistance, and skills-training.

In many smaller cities and rural areas, however, this approach will not work. The industrial expansion strategy is basically a reactive one, in which the public sector attempts to meet the stated needs of existing firms that have the capability to expand. (Of course, as in Shasta County, the economic development organization can be a catalyst in promoting the potential for expansion.) If an area lacks a solid manufacturing base or has no firms which believe in the potential for their own growth, no amount of infrastructure, financial packaging, or work-force training will trigger industrial expansion. In such cases, a different approach is needed -- one that either builds on what does exist in the local economy, or creates entirely new economic opportunities and new business entities. Those alternatives -- small business development and new enterprise development -- are treated below.

Strategy II: Small Business Development

Rationale

In recent years, the small business sector has been accorded greater recognition as an important contributor of employment opportunities. Very small businesses -- those with ten or fewer employees -- are now widely credited as supplying thirty to forty percent of all new jobs created in the United States each year. And if we define small businesses as those with up to 50 employees, we can attribute the creation of perhaps sixty to seventy percent of all new jobs to such businesses. But small businesses also have serious problems. Undercapitalization and poor management combine to cause a high failure rate, and an even larger body of potentially viable business ideas never materializes as going ventures because of shortcomings in financing, planning, or management.

In most smaller cities and rural areas, small businesses (20 or fewer workers) are the mainstay of the local economy. These businesses are usually in the retail, service, or light manufacturing sectors, and most are operated by their proprietors. Many have low capital investments and low rates of profit; and many of the owners have little business training or none at all. In management capability, the businesses can range from tiny "microbusinesses" with only a few employees, in which the owner often lacks even basic skills in bookkeeping, financial planning, and marketing, to larger businesses whose owner-managers are beset by more complex management burdens, personnel problems, tax liabilities, and the concomitant need for more sophisticated planning and marketing skills. All of these small businesses rely heavily on commercial bank financing, but for several reasons, they have considerable difficulty in borrowing needed capital: They lack sufficient collateral, they cannot present a convincing business prospectus, and they are perceived in general as high-risk ventures.

An effective small business development strategy, then, must address the two basic needs faced by small businesses -- the needs for financial help and management and technical assistance. The goals of such a strategy are to help new businesses start up and to help existing small businesses expand into more profitable and viable ventures. As these goals are achieved, new jobs are created, the incomes of owners and workers increase, and an entire and important component of the local employment equation becomes more stable.

Elements of a Small Business Development Strategy

Business Counseling: This is the simplest and least costly element in a small business development strategy. Since many small business owners are untrained in financial analysis, marketing, and business planning, efforts to assist them need not always be sophisticated or complex to be of real help. A program staffed by a generalist who has access to consultants for specialized problems can be quite effective in helping businesses improve their profitability, assess their potential for expansion, and even obtain bank financing. Such a program can also help prospective business owners evaluate their chances for success and guide them in the careful planning of their business.

The essence of counseling programs lies in helping the business owner to identify and solve his or her specific problems. The programs often utilize tools such as the Business Planning Guide, developed for the Business Information Center program in New England, which leads the business owner through a series of questions about goals (short-term and long-term), the current state of business, known opportunities for expansion, known risks, and other basic issues. Besides its inherent utility, consideration of these issues helps business owners identify areas in which they need to seek further technical advice.

An example of a successful business counseling effort is the one-year-old Business Support Center operated by the Redwood Community

Development Council in Eureka, California. The Center is staffed by a trained accountant who has also taught herself the basic skills of business planning, management, marketing, and loan packaging. She helps business owners assess their strengths and problems, provides first-line technical assistance for specific business problems, and assists in the preparation of business plans for use in loan applications. For problems that go beyond the staff person's capability, the Center utilizes consultants -- faculty from a nearby state university, bankers, or more specialized accountants. The Center's staff person often accompanies the business owner to such sessions in order to act as an intermediary between the more academic or technical consultants and the business owner. The Center also uses a minicomputer to help clients with financial planning.

Although the Center has no independent resources for financial assistance, it has helped many clients obtain private financing by improving their credibility with banks. Help in preparing business plans is a key element there, as are the personal relationships the Center's staff person has established with local bankers. A case in point involves the owner of a downtown drugstore who came to the Center complaining of competition from chain stores in a new shopping mall. The downtown store was in a poor cash position, and the local bank had refused to refinance the business. The Center brought in a marketing expert from a nearby college who recommended that the troubled store pull back from across-the-board competition with the chains and specialize instead in personalized pharmaceutical assistance for its clientele. Under that plan, the bank was persuaded to extend a reworked loan, and the business is now doing well.

Despite the success of business counseling programs like the foregoing, continued funding presents problems. The Center in Eureka, for example, was supported by a PSIP grant of $55,000 for its first year, which enabled it to make contact with 200 businesses and to work intensively with 68 of them; still, it has not been able to lock in funding for the future. The California project was modeled on that of the Massachusetts Business Information Center, which was also funded by CETA for two years; and which, when the CETA cutbacks hit, died. Counseling projects of this sort must have public assistance to operate. A system of fees could provide support for the counseling services. If rates were kept affordable, however, they would not cover the entire cost of the service. Conversely, if full rates were charged, many needy businesses would be excluded.

Still, business counseling is the least expensive, and possibly the most cost-effective, approach to small business development, particularly in an area where there is a fair amount of small business activity. A business counseling program can be staffed by a single professional, who need not hold a MBA or be a fiscal wizard. (In fact, it seems more important to hire a person who can communicate well with local business owners, take initiative, and learn on the job.) The program can help businesses operate more successfully, guide aspiring business owners in planning the start-up of new enterprises, and arrange commercial financing for qualified ventures, though the program has no allocable funding of its own.

Financial Assistance: While business counseling programs can help small businesses obtain bank financing, there is often a need to go beyond that step and supplement commercially available assistance. Supplemental financial assistance for small businesses can take several forms, the most prevalent of which are direct loans, loan guarantees, and equity investments.

All the forms discussed here are variations of the direct loan, which is the most common type of financial assistance offered by local organizations to small business. In the past, money to set up revolving funds for making direct loans has come from EDA, CSA, the federally supported regional development commissions, and state appropriations. The revolving funds serve several interrelated functions: they can make capital available to businesses that could not otherwise get a loan; they can increase the amount of money a business can borrow by leveraging bank financing; and they can lower the cost of capital by offering below-market interest rates.

An example of the first function is found in the Vermont Job Start program, which makes loans of up to $5,000 to small, owner-operated businesses including self-employed craftspeople, loggers, and auto mechanics, and small retail and service shops. All recipients must have annual incomes of less than $12,000 and must have been rejected by conventional credit sources. Reasons for rejection by banks are varied: most applicants have been rejected as lacking collateral and as being poor risks. In addition, many banks are simply not interested in writing such small loans as many Job Start recipients have sought; the costs of the loan would exceed the banks' potential profits. Finally, many Job Start applicants have kept such poor financial records that they cannot meet bank standards for loan applications.

By making loans to high-risk, often unconventional businesses, Job Start is filling a need for financial assistance which had been left unmet by the private sector. And it is filling that need with rather remarkable success. In its first two years of operation, the program lent $425,000 to 178 businesses, creating an estimated 98 jobs and sustaining an additional 111. The loss rate has been kept on the order of 5%, partly because of the program director's aggressive collection practices and partly because monthly payments -- on loans of under $5,000 at 8½% interest and with terms of up to five years -- are quite low. (Job Start's pre-approval scrutiny of applicants' projected household incomes and their other debts also serves to keep the loss rate low.)

While loans under Job Start are for the most part too small to leverage additional bank financing, many financial assistance projects lend to somewhat larger businesses and use private-resource leveraging as a means of increasing the impact of their limited funds. An exemplar of that approach is eastern Kentucky's Mountain Association for Community Economic Development (MACED), which draws on a $500,000 revolving loan fund capitalized by EDA and has access to additional funds from the Appalachian Regional Commission, made available through the state development finance authority.

MACED packages loans for local business start-ups and expansions; the average package is for $100,000, with MACED providing 20% of the total directly. Most borrowers had previously been refused loans by local banks. MACED induces banks to participate through its own financing of borrowers' subordinated debt, which reduces both the amount requested from the bank and the bank's risk, and through its technical assistance to borrowers. MACED staff help borrowers develop strong business plans by guiding them in marketing, operations, and cash flow planning. The average MACED-packaged loan has created 20 jobs.

The primary benefit of MACED's loan program is that it opens up private financial institutions to businesses that otherwise would not be welcome, or would not be dealt with so liberally as would larger businesses. There is an added benefit, as well: since MACED supplies its portion of the loan package at an interest level approximating the rate of inflation, borrowers benefit from an overall interest rate of less than the market rate. Other revolving loan programs bring interest rates even lower than the MACED program's.

One such program is the Burney-McCloud revolving loan fund, capitalized at $1 million by EDA in response to the closing of several major lumber mills in those two northern California towns. The fund, although it operates in a sparsely populated area, received a remarkable 1500 loan requests in its first year of operation. That high demand is partly attributable to the fund's offering one- to seven-year loans at interest rates of seven to ten percent. The fund was created after local leaders proved that high interest rates were preventing local businesses from securing bank loans. The fund's low interest rate was instrumental in making it affordable for businesses to expand and for new firms to start up; financing that would have produced negative cash flow for the recipient at the prime rate, for example, became feasible when one-third of the loan carried interest of only 8 or 9 percent.

In its first year, the fund made 15 loans in sums ranging from several thousand dollars (to a porcelain finishing firm) to several hundred thousand dollars (to a new company that plans to mine crushed lava rock for use in landscaping). The 15 loans totaled nearly $750,000, and they succeeded in leveraging almost twice that amount in financing from commercial lenders.

Examination of these three and other revolving loan programs points to several issues that must be considered in designing a direct loan program. They include: the size of the businesses to be served, and the magnitude of loans to be made; the interest rate to be charged; the terms to be set; and the amount of risk to be tolerated.

A program like Job Start, which makes small loans to very small businesses, can clearly meet a need that is not being met by private financial institutions -- it can help a large number of small, apparently marginal businesses become less marginal and more stable. Because of the nature of the businesses, each small loan creates at most one or two jobs. MACED's program, by contrast, lends to fewer businesses, but each loan has a greater impact on the economy in terms of jobs created, business expansions, and indirect multiplier effects. One of MACED's ventures, for example, was a lumber holding yard and brokering company which purchases lumber from local sawmills and sells it on the national market. Indirectly, that operation will create up to 48 new jobs at 12 area sawmills by supplying the mills with a reliable, year-round market for their products.

One advantage of making larger loans to larger businesses, as noted, is that it enables a program to leverage bank financing, thus stretching its own funds farther. Another factor to consider in deciding the optimal size of loans a fund should make is the amount of staff time required for the packaging of each loan. Like banks -- many of which are reluctant to write small business loans, since a small loan takes nearly as much time to service as a large one -- many public programs find it more cost-effective to make loans in the $15,000 to $30,000 range than in the $1,000 to $15,000 range. Job Start is an exception; it is able to write and service a large number of small loans (200 currently) because it keeps paperwork to a minimum and provides little technical assistance to its borrowers.

In deciding on an appropiate interest rate, a fund must work out a trade-off between making assistance affordable to small businesses and generating a sufficient rate of return to sustain itself. Programs like Job Start or Burney-McCloud, which charge less than 10 percent interest in the face of double-digit inflation, will find the real value of their funds depreciated after a few years, even if all borrowers repay in full. That may be acceptable in a situation like Burney-McCloud, where the fund was created to give the economy a quick jolt in response to a particular crisis (major plant closings). For loan funds that want to be self-sustaining, however, a somewhat higher interest rate is essential. MACED, for example, lends its money at rates approximating the inflation rate (still well below the prime lending rate) and finds that plenty of local businesses can afford to borrow. Other revolving loan funds charge even higher interest to compensate for expected losses and to offset administrative overhead.

While the shortage of long-term financing is a severe problem for small business development, revolving loan funds generally limit themselves to short-term loans. Job Start's maximum term, for example, is five years, and Burney-McCloud's loans range from one to seven years. If those programs allowed longer terms, their funds would revolve so slowly that they would be faced with long periods in which they could carry out little new lending activity.

The question of risk toleration is also a difficult one. The purpose of a public loan program is to help businesses that could not otherwise obtain private financing, which often means businesses viewed by bankers as high-risk borrowers. The public lending organization however, also wishes to avoid lending to businesses that fail, since failures deplete the loan fund and leave no benefits for the local economy. Successful loan programs have learned to deal with this problem in two ways. First, like private banks, they minimize risk through careful assessments of the people who apply for loans. The Burney-McCloud program, for instance, is directed by a local man who was hired because of his ability to "tell the winners from the losers." The second method for minimizing risk is for the loan organization to preempt business failure by providing ongoing technical assistance to its borrowers. MACED, for example, is beginning to monitor its borrowers' performance with the help of a minicomputer, and to pinpoint potential problems before they can threaten the success of the enterprise.

Summary

The most effective kind of small business development program is one like MACED's, which combines business counseling with financing services. In the coming years, however, the establishment of revolving loan funds will be a more difficult matter for local development organizations. Of the traditional sources of financing for revolving loan funds (EDA, CSA, the regional commissions, and HUD block grants), only the HUD grants remain active. Local organizations should still be able to argue effectively for state capitalization of revolving loan funds, particularly in depressed rural areas. State governments, it is hoped, will recognize revolving loan funds as a good investment, since they allow a one-time commitment of funds to be cycled and recycled through the local economy for years to come.

Even with no allocable financing, a local organization can offer effective business counseling. Many businesses that believe they need money are actually in need of better management or marketing, and a counseling program can help make nonfinancial improvements of that sort. And if a business does need additional financing, a counseling program can help with its approach to the banks.

In both business counseling and financing programs, staffing is of critical importance. That is not to say, however, that a highly paid, highly sophisticated staff is necessary to administer the programs, especially if more technical backup is available when needed. In the Business Support Center and the Burney-McCloud, MACED, and Job Start loan programs, the most important characteristics of staff were dedication, understanding of the local area, ability to learn on the job, and readiness to seek help when necessary.

Finally, if either of these two types of assistance programs is to be successful, it is important that the local economic development organization have a visible presence in the area, and that it build credibility with local business owners and bankers.

The success of business counseling and revolving loan programs indicates that, in many smaller cities and rural areas, a supportive climate can draw out viable business proposals and help business firms start up or expand. In other localities, though, that result may not follow, or the effort may not be adequate to meliorate a pervasive atmosphere of decline and pessimism. In those cases, it makes sense for local organizations to go beyond counseling, technical assistance, and financing and to take more active roles as initiators of new enterprises.

Strategy III: New Enterprise Development

Rationale

The less economic activity there is in an area, the smaller the foundation to build on through industrial expansion and small business development, but the greater the role for a proactive organization interested in initiating new enterprises. That approach is one in which a local organization researches local opportunities for new businesses and actively seeks people to start such businesses, or even starts the ventures itself. The approach requires a stronger local organization than does a technical assistance or loan program, but it can also have a more far-reaching impact on the local economy. At its best, this strategy can lead to the creation of a network of local businesses that build on local resources and provide mutual support.

While local development organizations have initiated a wide range of new enterprises, two specific types are emphasized here -- natural resource-based enterprises, and enterprises that manufacture new products. The former is treated because of its particular relevance to rural areas, and the latter because it is an innovative and promising approach which local development organizations are only beginning to explore.

In creating new enterprises, a local development organization goes through the same process that an individual entrepreneur might follow, but perhaps in a manner that is more systematic and more oriented toward broader economic development goals. The process begins with a research and development phase, during which the organization identifies goods or services that could be produced locally and assesses their market potential. In some cases, the organization actually helps establish a market for a product or service. The organization then initiates the enterprise either by selecting and helping a private entrepreneur as operator or by starting it as a subsidiary and later spinning it off as a private enterprise.

Elements of a New Enterprise Development Strategy

Research and Development/Venture Identification: In seeking opportunities to start local business, it makes sense to begin by conducting an inventory of the local economy. The first thing to look for is underutilized resources -- natural resources, human resources, or physical facilities that could provide the bases for new businesses. Another matter for examination is that of inputs to local businesses, especially manufacturers; they may be purchasing items manufactured elsewhere that could as easily be produced locally. If the inventory of the local economy seems to disclose only minimal opportunities, then it is appropriate to look into new product ideas, as discussed below.

Natural resource-based development is of particular interest because so many rural areas have renewable resources that have never been tapped to their full potential. Natural resource-based development not only creates new jobs by spawning new ventures; it also enables people who are already making a marginal living through farming, fishing, logging, and similar occupations to raise their incomes and gain a more stable livelihood. Development based on natural resources may utilize waste products, turning them into marketable goods. It may build on skills already present in the local population, and it often demands for itself a labor-intensive setting. Finally, the creation of one natural resource-based business often stimulates other businesses, thus creating linkages and a multiplier effect which can be felt throughout the local economy.

Three types of natural resource-based opportunities suggest themselves. The first type centers on resources that have simply been ignored because their value was not recognized or because no one had worked out means of processing and marketing them. The second type of opportunity involves resources which are extracted and shipped out of the area in raw form, but which could be processed locally. And third, there are opportunities that utilize either waste products or components of the resource base that have been discounted by big business as unprofitable or susceptible only to small-scale development.

An example of the first type of opportunity is MACED's Forest Products Development project. MACED readily identified eastern Kentucky's forests as a major underutilized resource that could provide the basis for new local businesses, and it assigned a staff person to become an expert in wood products manufacturing and marketing. That staffer investigated specific business opportunities; conducted feasibility studies; scouted out local entrepreneurs; and helped them obtain financing -- often leveraged by a loan from MACED's revolving fund -- to start new business ventures. In its first year, the Forest Products project resulted in three new ventures which employ a total of more than 40 workers, and MACED is continuing its research to identify further new opportunities for forest-related businesses.

The second type of natural resource project involves local processing of natural resources which were formerly extracted and shipped out of the area with little value added. Local processing, in effect, substitutes local jobs for jobs in some other location, and it enables the local economy to retain a greater share of the product's ultimate market value.

Much of the work of the Maine Development Foundation, a statewide nonprofit development organization with close ties to government and business, has involved seeking such opportunities, though on a statewide, rather than purely local, level. Specifically, the Foundation has researched the potential for developing the secondary wood and paper products industries in Maine, which produces much raw wood and paper but does little in-state processing of those materials. The Foundation's approach was somewhat different from that of the typical local development organization. Rather than using its research as a basis for starting indigenous enterprises, it presented its findings concerning the profitability of producing certain wood products in Maine (greeting cards, stationery, specialized wood components, and many others) to the large lumber and paper companies in the state and asked their help in marketing those production opportunities to the companies they currently sell to. To date, the effort has resulted in one printing company's opening a plant in Maine, and other new ventures are being considered.

The third type of natural resource-based opportunity often relies partially on state or federal subsidies to reclaim resources left behind by large private businesses, such as timber companies. A notable example is the Mendocino Fisheries Improvement Program in northern California, which clears and reclaims streams that had been ruined as salmon and steelhead habitat by woodwastes deposited in the timber harvesting process. After an experimental period, the project has demonstrated the cost-effectiveness of its activities, which have helped to revitalize both sport and commercial fishing in the area. As a result, the project has been granted continuing state funds for further stream clearance and for assisting timber companies with land management planning.

The research and development phase is also a crucial step in the process of new product development. Private industry, with all its resources, is often criticized for doing an inadequate job of research and prototype development as it relates to the commercialization of innovations. Despite that, proponents of new product development believe that that concept can offer one of the best avenues along which a rural area (or any depressed area) can move toward effective economic development. In southeastern Oklahoma, ITRAD -- the Industrial Technology Research and Development Foundation -- was established to serve as the heart of a regional development network designed to start new businesses based on new products and the commercialization of technology. Other elements of the network are the local vocational schools, a new community development corporation, an economic development district, and two state universities. Together, they perform the essential functions of venture identification, prototype development, and training, and they hope to add financing to that list.

Venture identification consists of assessing the marketability of new products brought in by inventors, sifting through available data bases for technological innovations that might be commercialized, and researching opportunities for the development and manufacture of new products under subcontract with large corporations. Prototype development includes the redesign of inventions to improve their marketability and the actual manufacturing of prototypes to fine-tune the production process and to produce samples for test-marketing.

In order to undertake this approach, a local organization must clearly have a strong commitment to a new product development strategy, since that strategy often requires more technical sophistication and more resources than, say, most variants of the natural resource-based strategy. In Oklahoma, for instance, the three participating vocational schools received a total of $670,000 in federal monies to develop "incubator" facilities in which they hope to manufacture prototypes for 9 new products each year. And ITRAD itself has an annual operating budget of $450,000. (The Foundation hopes, however, to become self-supporting through royalty fees on inventions.)

Marketing: For many new businesses founded on natural resources and new products, marketing is the logical follow-on to the research and development phase. In the Oklahoma program, for example, once prototypes of a new product have been developed, ITRAD sets out to market the product and then helps start a business to undertake full-scale production.

In some natural resource-based projects, the local organization actually creates a new market or demand for the new local businesses. The Mendocino Fisheries Improvement Program was notably successful in that regard. After the project demonstrated the feasibility and benefits of reclaiming salmon streams, the state granted the project additional financing from its Renewable Resources Investment Fund. And in FY '81, two bills were introduced in the California Legislature which, if enacted, would set up additional renewable resources funds that could provide more than $3 million in additional funding for stream restoration.

Another northern California development organization that has succeeded in creating a new market for new local businesses is the Forest Improvement Center in Humboldt County. The Center researched the feasibility of reforestation as a local private enterprise and found a lack of capable contractors and trained workers, on the one hand, and small demand for reforestation services, on the other. It then embarked on a two-pronged effort to train the necessary workers and to increase the demand for their services by educating landowners about government incentives for reforestation.

A broader approach to marketing is currently being explored by MACED. The organization is considering setting up a company to market goods made in eastern Kentucky. The company would attempt to locate or create regional or national markets for certain products and then contract with Kentucky companies to supply those products. The approach is similar to the cooperative marketing strategy long practiced by farmers. By enabling small local producers to pool their products and their marketing efforts, it gives them access to larger markets; in some cases, the approach can even create opportunities for new producers to enter the market.

Start-up: After a product or service has been identified, developed, and test-marketed, the local development organization either finds an individual to operate the business or founds the enterprise itself. MACED and the Forest Improvement Center have taken the former approach, adding business counseling services to help the prospective new business operators. MACED has also used its revolving loan fund to leverage bank loans for the forest product businesses that it has developed.

The Mendocino Fisheries Improvement Program started in the stream restoration business independently and will apparently continue to operate the business as a source of income for its parent nonprofit organization. The program has, however, developed and spun off other small businesses. After the stream clearance project had been operating for a year, the parent organization asked a logical follow-up question: How could the redwood debris it was removing from streams be turned into useful items? It then sought and received CETA Title VII funds to assess the market for redwood products and to train operators of small businesses which would salvage the redwood and manufacture a variety of products from it. As one result of that effort, five of the program's former trainees and one supervisor have formed a new for-profit firm specializing in redwood salvage and manufacture.

In the Oklahoma program, an additional step in start-up is the training of prospective production workers for the new enterprises. The training is provided through the participating vocational schools as part of the larger task of developing prototypes and perfecting the production process.

Summary

In many ways, new enterprise development is the most ambitious strategy discussed in this study. It incorporates elements of the small business development strategy, and, in fact, is most effective when attempted in conjunction with a small business development program. The primary example of that integrated approach is MACED, which has been able to seek out new business opportunities and then use its technical assistance and financing mechanisms to help start new businesses to seize those opportunities.

Local Development Organizations

One thread woven throughout the preceding discussion of strategies is the central role of local development organizations. Those organizations, as noted, can be diverse in form. From the standpoint of structure, successful local development organizations range from the independent nonprofit education and research institution that initiated the Mendocino Fisheries Improvement Program, through rather standard community development corporations with active membership bodies, to an organization such as the Northeastern Vermont Development Association, a quasi-public body whose board is appointed by the selectmen of each town in the region. Similarly, the organizations vary greatly in size of service areas -- from the Economic Development Corporation of Shasta County, which serves a district equivalent in size to Rhode Island, Connecticut, Massachusetts, and half of Vermont combined, to the tiny Hilltown CDC, whose concern is the 9,000 people living in nine small towns in western Massachusetts. The scope of activities among LDOs also differs considerably. Some -- the Redwood CDC in northern California, for example -- develop discrete projects like the Business Support Center and then spin them off as independent entities. Others, like MACED, perform a wide and continuing variety of functions on an in-house basis: research and development, business assistance, financing, and community development.

Despite their outward diversity, however, successful local development organizations share certain characteristics, the most important of which is flexibility. The organization, that is, must be able to take risks, to learn from its mistakes and change over time, to respond to changing problems and opportunities. Second, and also absolutely critical, is strong, creative leadership. The other characteristics shared by successful development organizations -- solid state and local support, adequate funding, and competent, dedicated staff -- are closely interrelated: it is impossible to hire effective staff in the absence of funding, and funding, in turn, can result only from support.

Each of these five attributes of a successful local development organization is elaborated below. For further elaboration on organizational characteristics, readers are referred to the case studies in Part II.

Flexibility

Flexibility connotes the willingness to experiment, the capacity to learn from mistakes, and the ability to respond to changing circumstances and seize new opportunities. An organization that exemplifies that trait clearly is the Mendocino Fisheries Improvement Program, which has evolved over a short career from a one-shot, CETA-funded forestry demonstration into a virtually permanent stream clearance and wood salvage operation financed jointly by large timber companies and the State of California. The program's leadership has continually reassessed project activities and explored new ideas in seeking the right mix of marketable activities that would provide a stable base of program support. After an unsuccessful venture with marketing wood-waste products, the program has moved gradually and serially into efforts involving stream reclamation, redwood salvage, advising timber companies on land-use policy, salmon population counts, and other activities.

It is also possible for a development organization to carry flexibility too far. Some organizations tackle a wide range of rather disparate activities including not just economic development, but housing, community development, and even social service provision for the sole reason that those are the activities for which they can get funding. Since the organizations often have limited staff, such a range of activities can spread the organization too thin and steer it away from its primary focus on economic development.

Leadership

It is possible to establish a local organization without strong local leadership, but leadership must emerge quickly if the organization is to become viable. Leaders of local development organizations are entrepreneurs -- they believe that their actions can make a difference, and they have what might almost be called a vision of how the local economy can be developed. In the initiation of a business project or enterprise, the individual's desire for profit plays, of course, a large role. But a different sort of motivation is needed for the initiation of a development organization: leadership must be committed to building up the economy of the region, to creating jobs, and to improving the local quality of life. Moreover, leadership's commitment must be sustained over a long period of time, and it must incorporate the realization that rewards will be slow in coming.

A classic example of strong leadership resulting in a strong organization can be found in the Economic Development Corporation of Shasta County. That EDC's current director, a former mayor of Redding, joined the organization 15 years ago. He had from the first a clear notion of how to achieve development in the local economy. He believed that the process had to start with a period of intensive community education, that new investment could be attracted only by a well-prepared community, and that fostering expansion of locally based companies was the best strategy for the area. He also believed it was important that the organization cultivate a good relationship with bankers and business leaders and that it stay aloof from politics. Pursuing his philosophy steadfastly and patiently over several years, he has enabled the EDC to develop an extremely successful industrial park, become an aggressive packager of SBA and EDA loans, and act as a respected intermediary between industrial and environmental interests. He has also guided the organization into new areas of endeavor, such as helping county governments with planning and proposal writing and formulating an economic recovery strategy for towns nearly devastated by industrial plant closings.

State and Local Support

Since a local development organization functions best as catalyst and facilitator, rather than as independent actor, it needs a broad base of local support to be successful. If the organization relies in part on state government for funding, it also needs the approbation of the leaders of that government. The best way to build and sustain support, of course, is through a solid record of accomplishment.

One of the first audiences with whom a development organization must win credibility is the local business community, and particularly the bankers and investors. If the organization is to gain support in that quarter, it must make clear that it intends to help local businesses and banks, not compete with them. It must convince the local financial/business establishment, for example, that the operation of a revolving loan fund will not take business away from local banks, but will instead open up new deals for bank participation and develop new businesses that will eventually become regular customers of the banks and of other local enterprises. When the development organization has achieved that sort of legitimacy in the eyes of the local business community and can back it with a showing of actual accomplishment, political support should follow.

Closely related to the issue of local support is the question of the amount of territory a development organization should attempt to serve. From the standpoint of maintaining a strong local presence and achieving a visible impact, a smaller geographic area is better. (MACED's assumption of that conclusion has led it to ignore -- temporarily -- most of its 85-county target area to concentrate its efforts on a much smaller area near its headquarters in Berea, Kentucky.) From the standpoint of funding, however, serving a larger territory is probably more sensible. Development organizations operating in nonurban contexts may have to target sizable geographic areas in order to impinge on populations large enough to help them secure political acceptance and a solid funding base.

Funding

Fund raising is a constant struggle for local development organizations. Most of the organizations have found state and federal grants to be essential, both for covering administrative and staff costs and for financing the projects they undertake. Federally funded CETA and

HUD programs have provided the start-up money for many local development organizations and enabled them to operate their first projects and plan succeeding ones. With cutbacks in and elimination of several of the primary federal funding sources -- EDA, CSA, CETA -- local development organizations will have to turn elsewhere for support.

Some organizations have been successful in obtaining funds from foundations, churches, local government, and other local sources. Other organizations subsist partly with the aid of small annual membership dues and contributions from corporations. Regardless of the overall funding picture, local fund raising is a good strategy, since it allows the organization to build its local support while it is raising money. The support-gathering process may take a long time, however. The Economic Development Corporation of Shasta County, for example, spent three years educating local business and community leaders about the potential for a local development corporation; at the end of that period, it raised $250,000 from local businesspeople and bankers as seed money for an industrial park.

Some organizations have been able to tap unique sources of funding at the state level. In California, the Mendocino Fisheries Improvement Program convinced the state to utilize part of its Renewable Resources Investment Fund to support stream reclamation projects after the program had demonstrated the feasibility and value of reviving salmon habitat. The Fund, which is financed by taxes on oil and geothermal energy developed on state lands, now supports the ongoing work of the Fisheries Improvement Program in a number of ecology-oriented projects.

Another innovative source of funding is utilized by the Maine Development Foundation, a statewide private nonprofit development organization with close ties to both state government and private industry. The Foundation solicits annual contributions from corporations, towns, and other public and private entities, which on contributing become voting members of the Foundation. Money from the solicitation is matched equally by a state appropriation.

Staff

Although local development organizations are often formed by groups of people working as volunteers, the organizations need paid staff to sustain themselves. As discussed earlier in this chapter, many successful development organizations believe that it is most important to hire staff who know the local area and who can communicate with local people. Technical skills such as business counseling or loan packaging can be learned on the job (especially if there are people in the area who will advise staff), while the more basic interpersonal skills cannot.

Summary: Roles of Local Development Organizations

The ideal local development organization serves as an initiator, catalyst, and facilitator of development projects and as a source of technical and financial assistance to small businesses. In so serving, the organization may take on a number of guises: business counselor, researcher and venture initiator, facilitator/intermediary, loan packager/financier, and industrial developer. The particular array of roles that an organization undertakes should depend on local circumstances -- the services lacking in the area, the capacity of the local economy to utilize new services, and the ability and resources of the organization itself. Few organizations, of course, spring up full-blown, performing the complete array of development functions. Rather, they evolve over a period of years, adding some functions and dropping others on the basis of what works most effectively.

Business Counselor

Business counseling and the provision of technical assistance are among the simplest and least costly functions that a local development organization can perform. The task can be done by a single staff person drawing on consultants or volunteers for additional support. By helping small businesses identify and solve their problems, devise realistic plans, and secure bank financing, these services help existing businesses become more profitable and more stable, and they also contribute to business expansions and start-ups.

Researcher/Venture Initiator

The research function is particularly useful in areas where there is little economic activity or where a climate of economic pessimism prevails. The function is, however, appropriate in other areas as well. A local development organization can be the catalyst which sparks the creation of new enterprise by identifying opportunities appropriate for the area, conducting feasibility studies, helping individuals start the enterprise, and, in some cases, beginning the enterprise itself. Since the research/initiation function is patently more complex and ambitious than, say, the business counseling function, it makes sense for an organization to move into the research/initiation role gradually. A logical sequence is for the organization to start with a business assistance program, and then move into the more proactive role of new enterprise developer only after it has gained credibility and experience in the community and developed strong in-house skills.

Facilitator/Intermediary

A local development organization can be a useful facilitator and intermediary between banks and businesses, or between developers and government agencies or environmental groups. In the former case, once the organization gains credibility with local bankers, it can help small businesses get a hearing. If the organization has money it can use for leverage, of course, it can be even more effective in that regard.

A local development organization is in an excellent position to act as intermediary between developers and government agencies or environmental groups because it has sympathy with both sides -- it wants to promote economic growth, but not at the expense of the local environment or quality of life. Examples of this type of activity can be found in two California projects: The Mendocino Fisheries Improvement Program and the Shasta County EDC.

A third type of facilitation worth mentioning is that discussed in the section on small business counseling -- acting as an intermediary (or translator, in some cases) between small business owners and specialized consultants.

Loan Packager/Financier

A local development organization with financing capabilities can spark business development by leveraging bank loans, reducing interest rates, providing long-term financing, and providing opportunities for businesses that are perceived as high-risk ventures. While federal money for revolving loan funds has become scarce, states may be willing to establish revolving funds and appoint local development organizations to act as administrators.

A continuing resource is SBA's new section 503 Certified Development Corporation program which gives local organizations access to long-term capital for up to 40% of the cost of land, buildings, and equipment. A local development organization that is engaged in other activities which support its staff is particularly well suited to become a Certified Development Corporation, since the SBA requires those corporations to employ at least one full-time staff person.

Industrial Developer

With the demise of EDA assistance and reductions in FmHA's business and industry program, fewer organizations in smaller cities and rural areas will be able to act as industrial developers. Industrial development is expensive, and without access to public money, the best a local organization can do is to act as an intermediary between expanding industries and property owners or local government. Even if money were available, the role of industrial developer would be recommended only in selected circumstances: in areas with a solid manufacturing base where there are locally owned industries that could expand if assistance were made available.

III. STATE SUPPORT FOR LOCAL ECONOMIC DEVELOPMENT

While the federal government has been the principal source of support for most local development organizations, some states have played a major role in assisting rural economic development. In the coming years, with declining federal assistance and more state control over resources, states will have the opportunity to play an even greater role in supporting local economic development. Some states may choose to follow their established patterns, emphasizing industrial recruitment and infrastructure development, but others will seek new methods of supporting economic development, particularly in smaller cities and rural areas where the traditional approaches have not been effective.

States that wish to further the locally based economic development strategies discussed in Chapter II can do so through four sets of actions: development of supportive state policy, provision of capacity-building and technical assistance for local development organizations, provision of financing for local development projects, and promotion of coordination (between state agencies, between state and local governments, and between the public and private sectors).

State Policy and Rural Development Strategies

States face an inherent difficulty in developing broad, formal economic development policies; for while decision-makers must set goals based on short-term political considerations, economic development is by nature a long-term process that impinges on a wide range of political interests. Moreover, states that have tried to develop such policies have often been unsuccessful in linking their policy to an implementation strategy.

One example of what can occur when a state government tries to develop a broad development policy may be seen in the career of the North Carolina Balanced Growth Policy, with its accompanying SCRADS (Small Communities and Rural Areas Development Strategy) report. The aim of the Policy was a valid one: to foster a more even and orderly pattern of economic growth across North Carolina by targeting state (and, it was hoped, federal) assistance to "growth centers." These centers were to be communities scattered throughout the nonmetropolitan areas of the state that had the desire and the capability (i.e., the basic industrial infrastructure) for economic growth.

The validity of the Policy was severely compromised, however, when its framers designated more than one hundred areas as growth centers in the attempt to satisfy constituencies all over the state. A policy designed to guide the allocation of state and federal assistance simply loses much of its meaning when so many targets are involved.

While the Balanced Growth Policy itself was intended to help the state make decisions about allocation of resources, the accompanying SCRADS report was developed to set out specific strategies for the state in guiding the development of agriculture, housing, business and industry, and community facilities. The report included some excellent and innovative approaches to economic development, but it suffered from a flaw which often impedes the implementation of development policies: It presented an enormous list of possible activities, but it failed to establish priorities among those activities. Additionally, the SCRADS report remained largely a staff undertaking; it was never effectively endorsed by high-level state officials, whose interest in it waned as the overall Balanced Growth Policy lost its political momentum.

The State of Vermont had similar problems in developing a comprehensive economic development policy. The Vermont policy, like the SCRADS report, included a lengthy list of recommended state activities, but with no explicit arrangement of priorities. And like North Carolina's Balanced Growth Policy, the Vermont effort tried to please all political forces. It included goals and activities that conflict potentially in terms of their approach to economic development (e.g., preserving agricultural land vs. promoting industrial development) or in terms of competing for limited state resources.

The experiences of both states illustrate the difficulty of developing a meaningful state development policy in the face of political pressures. Policy is valuable only if it can be used to guide action, and, in most cases, state economic development policies have not been linked to clear, manageable strategies. In Vermont (and to some extent in North Carolina), the policy development process itself was valuable, since it forced state agencies to think about what they were doing in support of economic development. But the end product -- the policy itself -- has thus far been less useful.

Despite the ineffectiveness of these explicit policies in directing North Carolina's and Vermont's economic development activities, both states have an implicit, well-established approach to economic development that has dominated their actions since long before the explicit policies were developed. In both states, that approach centers on industrial development. North Carolina's industrial development efforts concentrate on recruitment of branch plants (and recently on recruitment of entire industrial sectors, such as microelectronics), while Vermont's approach emphasizes state financing for expansion of local manufacturing companies.

Although the states in this study do not present convincing evidence of the effectiveness of broad state economic development policy, their experiences do illustrate the value of a state's having a conscious, focused approach to economic development for smaller cities and rural areas. Since economic development is a long-term process, often requiring years of effort before it shows success, and since smaller cities and rural areas rely heavily on state assistance, it is beneficial for those areas to know that the state has a commitment to supporting certain types of economic development activities over a period of years. That knowledge enables localities to plan long-term economic development strategies with fair assurance that they can count on state support.

In settling on its basic approach to local economic development, the state (or key state agencies) must consider three issues: the types of economic development activities it will support, the types of entities that can best carry out those activities, and the basis for allocating assistance for those activities throughout the state. The dominant approach in most states -- industrial development -- can be characterized as follows: The primary economic development activities supported by the state are plant expansion and plant recruitment; the major actors are private corporations, assisted by local and state industrial development agencies; and the distribution of state assistance reflects corporate decisions on plant siting.

California, however, offers a different model, and one more in line with the perspective of this study.

There, two state agencies (the Economic Development Department and the Office of Local Economic Development) have in recent years pursued an approach to economic development that is based on building up the capability of local development organizations and nurturing small business. The Economic Development Department (EDD), in particular, has a well-thought-out rural economic development strategy based on the recognition that economic development is a protracted process requiring local commitment and support. Over the years, EDD has supported fledgling organizations and tolerated the short-term mistakes of those organizations as part of the learning process; many of the economic development projects discussed in the California case study owe their existence to start-up funding from EDD. Similarly, the Office of Local Development has helped build up local development organizations by contracting with some of those groups for the provision of technical assistance to other groups.

Both California agencies have been fortunate in having access to discretionary funds (primarily from CETA, EDA, and other federal sources), in attracting and retaining creative staffs, and in working under an innovative state administration. Although their effectiveness may diminish with the lessening availability of federal funds, they offer other states a model for an alternative approach to economic development. The activities the California agencies have chosen to support are locally based development, small business development, and natural resource-based development; the entities they support to carry out these activities are local community-based organizations. And because the state agencies have adopted a long-term perspective, they have been able to target their assistance to some of the most economically distressed areas of the state, where they know success will come slowly.

Yet another approach to economic development is that taken by the Maine Development Foundation (MDF), a private nonprofit organization with close ties to Maine's state government. MDF takes a centralized and direct approach to economic development, targeting industries and working to build them up in the state. While that approach may appear to be simply a variation on the industrial recruitment theme, it also seeks to build on existing natural resources and established industrial sectors in the state. The approach involves a sounder strategy than do many state economic development efforts in that it attempts to examine systematically strengths and opportunities already available in the state. It is similar to the typical state approach, however, in that the key actors are private investors, whose decisions determine the geographic dispersion of economic activity.

In sum, then, each state has a dominant approach to economic development, explicit or implicit, which in practice tends to be more influential than comprehensive, formal economic development policies. What is needed to support the kinds of local economic development activities discussed in this report is state commitment to a particular approach. In that approach, the key activities are industrial expansion, small business development, and new enterprise development; the key actors are local development organizations; and the state's assistance is targeted to economically distressed areas and to areas ready and willing to take local initiative. That approach will normally lead the state to involve itself in the activities discussed below -- capacity-building and technical assistance, financing for local economic development, and coordination.

Capacity-Building and Technical Assistance

In FY '81, the State of Kentucky was given considerable autonomy in administering HUD's small cities grant program as a test of the state block grant concept. Kentucky was interested in using the HUD funds for local economic development projects as well as for more traditional housing and community development activities. Not a single economic development project was funded, however, because no town submitted an application strong enough to merit such a grant. Kentucky hopes to stimulate more and better economic development proposals next year by having experts review economic development proposals and recommend ways of making the proposed projects stronger.

In 1977, the State of Massachusetts created the Community Development Finance Corporation (CDFC), a new institution to help finance community-based economic development. CDFC was capitalized at $10 million to provide equity financing for business deals initiated by or linked to CDCs in economically depressed areas. During the first three years, only a few CDCs submitted business proposals, and only one of those was a rural CDC. Then, the state's Community Economic Development Assistance Corporation (CEDAC) became operational and began helping local organizations with business development activities.

Gradually, CDCs in Massachusetts are increasing their ability to identify business opportunities and utilize CDFC resources.

A similar tale was told in North Carolina when that state's government sought local economic development projects for inclusion in its application for a discretionary HUD small cities grant in 1981. Few proposals were submitted, and the state had to take an active role in helping local organizations develop ideas and refine project plans.

These examples point to the need for capacity-building and technical assistance for economic development organizations in smaller cities and rural areas. Capacity-building includes activities that help enhance the skills and broaden the knowledge base of a local organization: development of leadership, help in planning strategies, dissemination of project ideas pursued by other organizations, teaching general skills to the organization's board and staff members. Technical assistance, as the term is used here, is more project-specific and more technically detailed. It involves professional assistance brought in to help an organization with a specific problem -- for example, the performance of a feasibility study for a proposed business venture, or the determination of the legal and tax implications of the creation of a for-profit subsidiary by a nonprofit organization.

There are four basic elements in a complete capacity-building and technical assistance program: information dissemination, leadership and organizational development, technical assistance, and funding for local organizations. Massachusetts offers a complete package of state assistance for community-based development organizations, encompassing all four elements. The key agencies are the Community Economic

Development Assistance Corporation (CEDAC), which is funded from CETA, EDA, state appropriations, and other sources; and the Community Enterprise Economic Development program (CEED), which is funded by EDA and state appropriations. The two agencies work closely together, with CEDAC providing capacity-building and technical assistance services and CEED funding staff positions in local development organizations.

CEDAC is only a few years old, but it has already developed a range of services to meet the varied needs of local development organizations. First, it offers workshops to disseminate information on specific topics of interest to local development organizations (revolving loan funds, housing development, financial analysis, and others). Information dissemination is the simplest capacity-building function that a state can perform, yet it is extremely useful in helping organizations generate and assess ideas for economic development projects and share experiences with similar organizations.

Second, CEDAC staff work intensively with a few newer organizations to help them plan and implement economic development strategies appropriate to their areas. CEDAC staff help develop leadership; they assist the organizations in setting priorities and selecting feasible strategies, and, in general, they speed up an organizational development process that might otherwise take years.

CEDAC's third function is to provide technical assistance by contracting with consultants to perform specific technical tasks, such as venture feasibility studies, for local organizations. That sort of assistance is especially valuable to organizations in smaller cities and rural areas, since they tend to be more isolated from information sources and rarely have access to volunteers with technical knowledge in business, law, accounting, and other fields.

The final element of the total capacity-building and technical assistance package is local staffing. In Massachusetts, that element is provided by the CEED program, which makes grants to fledgling CDCs to hire one staff person apiece. In many cases, the CEED-assisted staffer is the CDC's only staff person. CEED funding for staff positions has been critical in enabling young, developing organizations to take advantage of CEDAC's broader range of assistance.

California is a second state that has provided extensive support for local economic development in its smaller cities and rural areas. Both the CETA-funded Economic Development Department and the Office of Local Economic Development (with access to EDA, HUD, and other monies) have provided funding for staff support in local organizations as well as funding for projects (revolving funds, business assistance programs, and others). As noted earlier, many of the local development organizations described in the California case study owe their existence to EDD funding and support. EDD has also sponsored research on local economic development to help guide local organizations' activities.

In designing a capacity-building and technical assistance program, a state must consider four key questions: To what extent should it emphasize capacity-building, and to what extent technical assistance? How should assistance be provided -- by the state agency itself, or through intermediaries? How should limited resources be distributed across the state? And finally, what should the state do when there are but few local development organizations ready to make use of its assistance?

The distinction made here between capacity-building and technical assistance is that the former involves transferring skills _to_ the local organization, while the latter involves bringing in an outside expert to perform a specific task _for_ the organization. Some tasks (e.g., setting priorities, building local support) must obviously be done by the organization itself, with advice from outside if necessary; but other tasks can be performed either by the organization (perhaps with considerable help) or by outside experts. While some fields may be simply too technical for an organization's limited staff to master, it is advisable for the organization to build its capacity to handle as many problems as possible. This is especially true in times of scarce and unpredictable resources, when local organizations cannot rely on the availability of outside help. If, for example, staff or board members of a local organization learn how to evaluate a plan for a proposed new business, they will be better off next time they are presented with a business proposal; they will also be in a better position to develop a business plan themselves.

In deciding between helping to build the capacity of a local development organization and simply sending in a consultant to perform a task, the state agency should bear in mind that while capacity-building is more effective in the long run, it does take time. The best mix seems to be for the state agency to offer ongoing capacity-building assistance, while at the same time offering one-shot technical assistance on the most complex and technical topics and on problems that the organization will confront only rarely.

A second question facing the states goes to whether the state will provide assistance through its own agencies or through intermediaries, such as private consultants, universities, or other local development organizations. California's Office of Local Economic Development originally provided capacity-building and technical assistance through its own staff. When that staff was severely reduced because of budget cuts, however, the Office turned to a few well-established local development organizations as assistance providers. It has found the use of intermediaries to be a less costly means of providing training and technical assistance to developing organizations.

In Massachusetts, CEDAC has utilized its small staff to organize workshops, conduct training sessions for CDC boards, and work intensively with a few local development organizations to help them set priorities and assess economic development opportunities in their communities. CEDAC hires consultants to perform quick, technical, one-shot tasks for local organizations, such as conducting a feasibility study of the purchase of a garment manufacturing plant that was closing, or developing a marketing plan for expanding circulation of a bilingual community newspaper.

A third question, quite important in times of dwindling public resources, addresses the distribution of capacity-building and technical assistance efforts within a state. Vermont, in its program of supporting staff positions in regional development corporations, has chosen to fund one organization in each region of the state, and to fund all such organizations equally as long as they can generate local matching funds. This system has the political advantage of spreading assistance across the state; it is also advantageous to the state's more rural regions, which, in its absence, might not be able to compete with the more developed areas for funding. It may not, however, be the most cost-effective approach from the state's standpoint. A state, for example, might deem it more sensible to target its neediest areas; or it might decide to single out the local organizations that can make the best use of the assistance.

California's EDD has followed the former approach; it targeted assistance to the most depressed areas first, since its goal was to relieve unemployment and underemployment and it was willing to take several years to attain that goal. Massachusetts, conversely, has directed its assistance more toward organizations that show potential in economically depressed areas of the state, but not necessarily the most depressed areas. In selecting specific organizations to assist, Massachusetts looks for evidence of community support and for organizational commitment to and understanding of community economic development. Given limited resources, the Massachusetts approach seems sound: targeting aid generally to economically distressed areas, and then seeking organizations within those areas that have solid leadership, local support, and a commitment to local economic development.

A troublesome situation occurs when there are few viable local organizations capable of undertaking local economic development projects. In that case, the state, committed to developing a base of effective local organizations, can be the catalyst that steps up the evolution of such organizations. In Massachusetts, the availability of capacity-building assistance, combined with the state's innovative financing institution, CDFC (discussed below), has sparked the creation of several local development organizations. In addition, those state resources have enabled organizations that were previously involved only in housing or other traditional community development activities to move into the economic development arena.

Financing

Most states are involved in financing business development to some extent through tax incentives, loans and loan guarantees, and other explicit or implicit subsidies. Such subsidies can be expensive and of limited value to smaller cities and rural areas. They tend to be oriented to the needs of larger businesses, rather than the small enterprises that are more common in smaller cities and rural areas. The subsidies offer little help to areas where the primary need is not for incentives, but for more intense assistance for or direct institution of business ventures; or to those localities that lack intermediary organizations or adequate financial institutions to help businesses take advantage of state assistance.

Some states have established innovative financing institutions designed expressly to help smaller businesses or businesses in economically depressed areas. Those institutions emphasize helping local businesses and funding community-based projects, rather than subsidizing the activities of large corporations. Innovative financing agencies included in this study are the Massachusetts Community Development Finance Corporation (CDFC), Vermont's Job Start, the Maine Capital Corporation, and California's Renewable Resources Investment Fund.

CDFC: Massachusetts' CDFC is an unusual state institution in its provision of equity financing and in its limitation of assistance to businesses that are linked to CDCs in economically depressed areas. It was capitalized with $10 million in state bonds. Since that entire sum was given to CDFC at the start, the agency has had a secure source of operating funds in the form of interest earned on the uncommitted balance. CDFC's goals are more complex than those of many state finance programs. It is charged not only with helping businesses start up and expand in depressed areas, but also with creating "good" jobs (paying at least 150 percent of the minimum wage), and with fostering true community economic development -- that is, helping grass-roots, community-based organizations to obtain ownership or control of local business ventures.

CDFC can approach that latter goal by several paths. At one extreme, CDFC might enable the CDC to begin or purchase a business and serve as its sole owner. More commonly, CDFC will buy an equity position for a CDC in a privately owned company, thus giving the CDC a voice in company decisions and a financial holding which can generate money for reinvestment in the community. And at the other extreme, the CDC, without taking an ownership position in a company, receives in return for assistance a commitment from that company to serve certain community interests -- for example, to train and hire an agreed-upon number of low-income community residents.

In its first three years of operation, CDFC has found that even in Massachusetts, a state with a wealth of CDCs, few of them are ready to take on the responsibility of owning businesses. CDFC's first four deals -- all of which involved a high degree of CDC ownership -- failed. Today, CDFC seems to be looking for ventures with a stronger private management component and a somewhat moderated CDC involvement; it is also planning to monitor participating businesses more closely to try to ward off failures.

CDFC clearly does not provide a model that can be transferred easily to other states. Even in states like Massachusetts that have a strong network of CDCs, an active capacity-building and technical assistance program must precede the financing function. In Massachusetts, as noted, CEDAC now provides that program, and observers believe it will improve CDFC's effectiveness in a few more years. That is still a long-term proposition, however, which calls for much patience on the part of the state.

CDFC's experience to date has shown that state provision of equity and near-equity financing can be an effective business development mechanism for economically depressed areas -- inner-cities, declining smaller cities, and rural areas. CDFC staff believe that none of the businesses financed to date would have started up or expanded in their present locations without CDFC assistance.

One element of the CDFC model that has relevance to the more traditional financing programs of other states is its utilization of local development organizations as intermediaries. The involvement of such organizations has two advantages. First, local development organizations, such as CDCs, are in a good position to ensure that benefits actually accrue to the local community. CDFC, for example, has been able to give local organizations the leverage to negotiate with companies receiving its assistance and to monitor the implementation of agreements stemming from such negotiations. One result has been more jobs for low-income residents of affected communities.

Second, the involvement of local development organizations can make a state's financing programs more accessible to rural areas. State business financing efforts (CDFC included) must often limit their assistance to relatively large investments for the sake of cost-effectiveness. CDFC's typical investment, for instance, is in the $100,000 to $300,000 range; smaller deals would require nearly as much staff time as large ones, and, consequently, they are not considered worth pursuing. Some rural advocates criticize this posture, saying it limits CDFC's activity in rural areas, where most business opportunities are modest in scale. They point out that if the state designated certain local development organizations as intermediaries to operate localized investment funds, it could increase the amount of assistance going to smaller cities and rural areas.

One state, in fact, has taken just that approach and has been pleased with the results. The Kentucky Development Finance Authority (KDFA) authorized MACED (a local organization discussed in Chapter II) to administer a business loan fund capitalized in eastern Kentucky by the Appalachian Regional Commission. MACED's role is to package loans and recommend projects for funding. Rather than looking for large business ventures (rare in rural Kentucky) or simply notifying local banks of the availability of funds, as KDFA might have done had it been operating the program from Frankfort, MACED has integrated the fund into its overall small business development effort. The organization thus uses the KDFA fund as one more resource in its attempt to plan and initiate new businesses and local business expansions.

Job Start: Vermont Job Start, described in Chapter II, is a revolving loan fund capitalized by the state which makes small loans to very small owner-operated businesses throughout Vermont. It illustrates another set of steps that a state can take in financing business development -- i.e., the state can choose a target group that is simple to serve and has access to no other financing, set realistic goals (e.g., creating or sustaining one or two jobs per business), and design a simple program with a minimum of paperwork to serve that target group. With a smaller staff than CDFC, Job Start has approximately 200 loans outstanding; CDFC has fewer than 10 current investments. Job Start can service so many loans for two reasons. First, since the businesses assisted are quite small, each deal is simple compared to CDFC's ventures, which must be thoroughly reviewed and monitored for management, marketing plans, and financial accountability. And second, Job Start's loan review process is decentralized, relying on five local (volunteer) boards appointed by local community action agencies. That scheme eliminates much of the need for extensive staff review.

Maine Capital Corporation: Another innovative model for state financing of business development is offered by the Maine Capital Corporation, a for-profit body established by the state legislature as the sister organization to the private nonprofit Maine Development Foundation. The state authorized MCC to issue $1 million in stock, for purchase of which investors could claim a 50% state income tax credit. MCC is licensed as a Small Business Investment Company (SBIC), which gives it access to an additional $3 million in SBA funds for equity investments and long-term loans. The Corporation must invest in in-state businesses, and two of its board members are appointed by the Governor. The other seven members are elected by the stockholders, most of whom represent savings banks.

In theory, an institution like MCC could help fill a recognized gap in the availability of equity financing for small businesses. The state tax credit was intended to help MCC overcome the conservatism that often characterizes SBICs. Since SBICs are generally for-profit corporations, they behave like venture capital companies; they look for businesses that are expected to grow quickly and then either go public or sell out to a larger corporation, so that the SBIC can sell its equity position after a few years. MCC is only a year old and has made only one investment, so it is too early to know what types of businesses it will finance. So far, however, it has been criticized by some as being too conservative.

It should also be noted that, unlike CDFC and Job Start, whose authorizing legislation contains stipulations about targeting assistance to depressed areas and low-income people, MCC makes its assistance available statewide and does not call for the involvement of local development organizations.

Renewable Resources Investment Fund: California's Renewable Resources Investment Fund represents a different sort of model. The Fund takes its money from the lease of state lands for extraction of oil and geothermal energy, and it uses the money to support projects that restore threatened natural resources in the state. Although the Fund was not established expressly to spark business creation or economic development, it has had those effects. For instance, its assistance has enabled the Mendocino Fisheries Improvement Program (discussed in Chapter II) to clear timbering debris from streams and thus revitalize ruined salmon habitat. That effort in turn has helped rescue the endangered salmon fishing industry in northern California and has led to the creation of new businesses involving the salvage and marketing of the redwood logs cleared from the streambeds.

Other states are beginning to put severance taxes on coal, minerals, petroleum, and other extracted natural resources, and California's utilization of such revenues seems particularly noteworthy. The revenues are used to restore degraded natural resources, and at the same time they help to open up new opportunities for small, natural resource-based business ventures.

It should be pointed out, however, that, except for the creativity and initiative of the local organization which began experimenting with stream clearance under a CETA project, renewable resource funds might not have been made available for stream restoration in California. The Fisheries Improvement Program was instrumental in influencing the state to make those funds available for revitalization of salmon streams, and it was the prime force in developing the technology, training the workers, and starting the business to do the work. This points again to the link between financing and the leadership -- or entrepreneurship -- provided by local development organizations. Financing is important; but without creative local leadership and capable organizations, financing alone can achieve little.

These four institutions, then, represent the diversity that is possible in state finance programs -- diversity in structure, function, and source of funds. With regard to structure, all but the Maine Capital Corporation are state programs; MCC is a private for-profit corporation with close ties to state government. An additional structure, not represented in any of the foregoing but under consideration currently in North Carolina, is that of a private nonprofit corporation closely tied to the state economic development apparatus.

The primary function of all the institutions except the California Renewable Resources Investment Fund is to finance new or expanding businesses. CDFC and MCC do this through equity and near-equity investment, while Job Start offers loans. In the California program, business development is not the central goal, but it has been an important by-product of the Fund's activities.

The four institutions were capitalized from four different sources. CDFC was funded by a $10 million issue of state bonds; Job Start, by state appropriations; the California Fund, by special taxes on energy resources; and MCC was capitalized by the sale of stock, with proceeds matched three-to-one by SBA as part of its Small Business Investment Company program.

The different modes of capitalization have directly affected the characters of the four institutions. MCC, as noted, seems to behave most in the manner of a private investor; that would be expected, since its board is dominated by stockholders who are looking for a return on their investments. The California program is the only one of the four with a built-in source of new money. As a result, it offers grants and contracts without looking for a direct monetary return on its investments. Of the four institutions, it is the most traditional in its public purpose. CDFC and Job Start fall between the extremes represented by the Maine and California programs. While they are conscious of limited funds and consequently look for investment opportunities that will pay them back, they are governed by public boards and concentrate on financing businesses that cannot obtain strictly private financing.

Coordination

Generally, four types of coordination are identifiable in the process of fostering rural economic development: coordination between federal and either state or local agencies, between state and local entities, within state government, and between the public and private sectors.

Since local economic development programs of the recent past have been largely dependent on federal assistance, those programs have had to do more than merely coordinate with federal agencies; they have, in effect, had to plan their strategies to match up with available federal funds. Some of the most successful local development organizations, in fact, have been those that have been able to follow self-determined local development strategy while remaining flexible enough to qualify for various types of federal assistance as they became available from year to year. Conversely, many local organizations have been hampered for years by their failure to line up all the necessary pieces of an aid package simultaneously -- a FmHA loan, a CETA contract, and an EDA grant, for example.

But today, with the lessening emphasis on categorical federal programs and the movement toward increasing state control over resources, local-federal coordination is decreasing in importance relative to other types of coordination. Coordination between state government agencies and local organizations, on the other hand, is more important than ever. For while local economic development activities must be initiated, financed in part, and implemented by local development organizations, "government" must foot much of the bill; and "government," in this context, is increasingly coming to mean state government.

Several alternative models for state-local coordination are shown in the programs included in this study. A decentralized model is represented by Vermont's program of aid to regional development corporations (RDCs). That program funds a staff position for each RDC, and then leaves the RDC essentially to its own devices, except for a monthly meeting of staff of the state Department of Economic Development and all the RDC coordinators. That system works well in Vermont. Under it, local staff members have the opportunity to exchange ideas regularly with each other and with state staff; their responsibility and reporting relationship, however, is still to their regional boards, and the state imposes no demands or restrictions on their activities.

The proposed North Carolina Rural Development Corporation, in contrast, presents a centralized model with a strong state role and weaker local participation. The Corporation was planned as a statewide, private nonprofit organization with for-profit subsidiaries that would initiate and help finance business ventures in North Carolina's smaller cities and rural areas. If implemented as planned, the Corporation would have no formal relationship with local development organizations;

its local (or rather, regional) operations would be mounted from three regional universities.

If a state is committed to supporting locally based economic development in smaller cities and rural areas, it must establish a give-and-take relationship with local development organizations. California's program of assistance to local development organizations, funded by discretionary CETA money, is a paradigm of a nearly ideal relationship between state government and local organizations. The state nurtures local development organizations; it helps them grow by funding them, commissions research to help guide their choice of economic development strategies, and takes the long-term perspective, realizing that an organization must make mistakes as part of its growth and development process. The state also learns from its local grantees and modifies its funding priorities from year to year on the basis of the experiences of the local organizations.

Coordination among state agencies is increasingly important in view of the growing role for states in administering all sorts of assistance programs. It is perhaps also the most difficult kind of coordination to bring off, and its absence has marred the implementation of many state efforts. State agencies have different priorities and different approaches to the same problem; a state's employment and training agency, for instance, is likely to approach the issue of unemployment from a very different position than the same state's department of commerce. Interagency differences of that sort are often compounded by the political ambitions of key officials, by staff overload, or by bureaucratic inertia. The thinking exhibited in such statements as "We don't have time to find out what the other agencies are doing;" or "We've always operated independently; why change?" can present a very real obstacle to interagency coordination.

Again, California's experience is worthy of notice. That state's interagency Rural Development Committee has succeeded in setting interagency rural development goals and strategies, and it has served as a forum in which the several affected agencies can address urgent problems and seek advice, support, and resources from each other.

The most important area of coordination for local economic development programs is that between the public and the private sectors. Successful local development organizations must function as links between government and private enterprise, whether they are developing infrastructure for industry, counseling small businesses, or researching opportunities for new business start-ups. Additionally, some local development organizations play a mediating role between government and private industry interests. The discussion of local development organizations in Chapter II and the more detailed presentations in the case studies provide numerous examples of public-private coordination.

Summary: State Support for Local Economic Development

Every state shows a dominant motif, either explicitly or implicitly, in its function of assisting economic development. As the states come to play a larger role in local economic development, it is important for them to develop conscious, explicit strategies to guide their actions. A state's government does not need to develop a formulaic, comprehensive economic development or small city and rural area policy; it does, however, need to reach internal agreement on a basic approach to local economic development.

If it were to adopt the approach advocated in this study, a state would concentrate on helping local development organizations promote industrial expansion, small business development, and new enterprise development. It would target its assistance to economically depressed areas in which there are organizations ready to take local initiative, and it would be prepared to respond quickly to local economic crises. A state would carry out this approach to local economic development through two sets of activities: capacity-building/technical assistance, and financial aid.

Capacity-building services and technical assistance from the state are especially crucial to smaller cities and rural areas, where local sources of assistance are scarce. As much as possible, the state should help build skills within local organizations and increase their self-reliance; in some cases, though, it is also useful for the state to provide one-shot technical assistance through consultants, state personnel, university staff, or other resources. The state's role in this area can range from the modest one of educating local organizations about project ideas to the ambitious one of helping to create local organizations where none exists. In the latter case, the key steps are to identify local leadership and to support that leadership in its efforts to build an organization.

The question of state financing for local economic development projects is a complex one and a subject about which much has been written in recent years. From the evidence of the financing programs examined in this study, two points can be made.

First, federally supported loan funds in rural areas (as discussed in Chapter II) have been effective in leveraging bank loans for businesses that otherwise could not have started up or expanded. Since federal funds are no longer available to establish new revolving loan funds, it would be sensible for states to consider capitalizing revolving loan funds in smaller cities and rural areas. And second, state financing works best when it is accompanied by a strong local presence in the form of a local staff which can help develop business opportunities, counsel local businesses on their expansion plans, and ensure that local workers benefit from business development. This suggests that states would be wise to use local development organizations as intermediaries for state financing programs in smaller cities and rural areas.

Central to all these state activities -- setting policy, determining strategies, providing financing and technical support for local development organizations -- is the issue of coordination. To achieve success in economic development efforts, the state must coordinate its actions with local organizations and with federal programs; state agencies must cooperate with each other; and, most important, the public and private sectors must work together. Coordination in this sense connotes the linking and meshing of an overall state strategy with capacity-building and financing activities to form an effective total package of state support for local economic development.

PART TWO

CASE STUDIES

CASE STUDIES

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CALIFORNIA

INTRODUCTION

Overview

By one set of measurements, California is the nation's most urbanized state, since 96% of its people live in counties with populations of more than 100,000. California can also be considered the nation's tenth most rural state, however, since nearly two million of its people live in places with populations under 2,500. And while largely urban in residence patterns, California is unequivocally rural by land use. Almost half of the state's vast acreage is in forest (42%), and an even larger portion is in government hands (44%). Agriculture is the state's primary industry, and California is the nation's most productive farm state.

The past decade has been a time of rapid growth for California's non-metropolitan counties. After forty years of slow growth, the non-metropolitan counties expanded by 18% between 1970 and 1976, surpassing the 5% growth rate of metropolitan areas. While the state as a whole is expected to grow 8.7% by 1986, one fourth of the counties with fewer than 100,000 people are anticipating growth rates of more than 20% over the next five years.

This study focuses on northern California -- the twelve rural counties bounded by Sacramento, the Oregon border, the coastal mountains, and Nevada that are known as the Northeast, along with the three northern coastal counties referred to as the North Coast. These fifteen counties have been growing since 1970 at rates varying from 7 to 56 percent. Along with growth, the northern counties have been experiencing chronic and critical unemployment. All exceeded the state's average 6.8% unemployment figure for 1980, and three had rates of over 15%. Even relatively prosperous Shasta County, with a growth of 49% since 1970, recorded a 12.9% unemployment figure in 1980. Though seasonal unemployment has been the norm in many of these northern counties, the rapid decline of the area's lumber and fishing industries coupled with the in-migration of urbanites has led to structural unemployment problems of serious proportions.

The importance of forest products to northern California's economy cannot be exaggerated. In some counties, the timber industry is responsible -- directly and indirectly -- for nearly sixty percent of employment. Agriculture, recreation, and fishing provide additional jobs. Livestock raising and the growing of oats, barley, and hay are the main agricultural activities. There are a growing number of service jobs as a result of the increasing number of retired people, vacationers, and second-home dwellers lured by the region's expanses of forests and parks.

The timber industry is in serious decline. In 1930, the industry provided 50% of all the jobs on the northern California coast. This figure reached 70% by 1950, but plummeted to 25% by 1980. New jobs have not become available for many of the displaced forestry workers. Indeed, it is estimated that one fourth of all the timber workers in the Pacific Northwest are unemployed.

There are a number of reasons for such a decline. Most obviously, the immense stands of first-growth redwood and Douglas fir which produced annual harvests of billions of board feet are nearly depleted.

Sustained yield -- the practice of cutting no more than is planted -- is not yet a universally accepted practice among the large timber holders, private and public. And until recently, both taxation and regulatory policies encouraged rapid harvesting and provided few incentives for replanting, erosion control, or the maintenance of wildlife habitats.

Shortages in supply have been aggravated by growing foreign demand for the Northwest's raw timber. Small mill owners have been unable to survive the shortages and the resulting higher prices. Humboldt County in 1960, for example, boasted 500 mills; today, there are 20.

But the loss of forest-related jobs is not due only to the shortage of timber; it is also attributable to decisions by the dominant multinational corporations to reinvest in more capital-intensive equipment and to relocate, particularly to the southeastern United States. These corporations have been troubled by obsolescent equipment geared to first-growth timber stands, and they have been hurt by the downturn in the housing industry.

The decline of the timber industry was hastened on the North Coast by Redwood National Park. Created in 1968 and expanded in 1977, the park removed more than 30,000 acres of old-growth redwood from production. Though it displaced thousands of timber employees, the park provided more than $20 million in benefits and severance payments to nearly 2,500 workers. Few workers, however, took advantage of retraining or relocation opportunities.

Mill closings continue in northern California as the industry adjusts to the decline in demand and shifts from first-growth to highly automated second-growth harvesting. If the region's persistent unemployment is to be curbed, its economy must be diversified, alternative methods of forest rehabilitation must be developed, and secondary wood product markets must expand.

Rural Policy and Government Structure

The state's involvement in the development of the economy and the infrastructure of rural areas is, for the most part, limited. California has no specific, formal rural policy or general rural strategy; and the weakness of the rural voice in legislative chambers and government offices makes future formulations unlikely. Nor does the state have a regional structure for administering programs and providing technical assistance to small cities or rural counties. Finally, the state, until recently, was not involved in aggressively recruiting and attracting industries to local areas, rural or urban.

Notable exceptions to this lack of state involvement in assisting local areas with economic development do, however, exist in California. The Rural Development Committee, a group of state and federal officials that has been active for almost a decade, is involved in initiating, supporting, and evaluating rural development projects funded by the state and federal governments. The Office of Local Economic Development, a division of the state's Department of Business and Economic Development, helps build the capacity of local governments for strengthening existing businesses through financial and technical assistance. And the state's CETA office has a special rural development unit which has invested more than $50 million in a variety of research and demonstration projects in rural California. These three institutions will be explored in greater depth following a brief discussion of overall state policy and structure as they relate to economic development in small cities and rural areas.

California has no formal rural policy. Specific strategies, however, have been developed for the Foothills (the thirteen counties in the Sierras), and for the coastal counties. Strategies developed by the Governor's staff for the Foothills involve support for proposed legislation directed at ameliorating high interest rates and increasing the availability of financing for infrastructure and housing. Strategies for the coastal counties are concerned with offshore development rights and protection. Though the Governor was interested, at one point, in developing a statewide rural strategy, a push for a statewide rural development corporation came to naught recently in the Legislature. Though California is an agricultural state, its non-metropolitan population is perhaps too small for it ever to be a state with a strong rural lobby.

The state's presence in rural areas is minimal. The Department of Housing and Community Development, for example, has only two area offices in the entire state. Only the Employment Security Commission (referred to as EDD), CETA, and the state Division of Forestry maintain a network of local offices. This limited presence is not strictly a function of dwindling resources. Rather, California has historically resisted regional planning and administrative bodies. There are only three EDA economic development districts in the entire state, and councils of government (COGs) are weak. The director of a twelve-county higher education district cites numerous instances of resistance to coordination, usually interpreted locally as control.

The state's lack of interest, until recently, in aggressively promoting industrial development is as much the product of post-World War II prosperity as it is of the home-rule mentality. It is only in the past several years, in the face of numerous closings of lumber mills, canneries, and auto-related plants, and the relocation of several key firms to the Sunbelt, that the state has begun to take a more active role in industrial recruiting. Thus the state's Department of Business and Economic Development was created in 1977, the inventory tax was abolished, a state industrial revenue bond policy has been created, and Proposition 13 was touted as a significant way for local corporations to achieve tax savings. Such state activities -- common elsewhere -- are of recent vintage in California.

The California Rural Development Committee was formed nearly a decade ago as the body of state and federal officials mandated by the Rural Development Act. Its role has included serving as an advisory group to the state's Small Farms Viability Study, evaluating a study for the U.S. Department of Energy of geothermal potential in Lassen County, cosponsoring a USDA-HUD local capacity-building demonstration, and most recently, activating and evaluating a state-level response to plant closings in the Burney-McCloud areas of northern California. (The section of this paper which deals with the Burney-McCloud plant closings includes further information on the Committee's activities.)

The California Office of Local Economic Development is one of seven offices within the newly created California Department of Business and Economic Development. With small cities as its primary focus, the Office provides information and training on downtown revitalization, commercial development, economic development strategies, and revolving loan programs. On-site technical assistance, though currently curtailed because of staff limitations, has involved the preparation of local development strategies, funding proposals, and grant packages. When EDA funds were available, the Office provided direct financial assistance to local governments and businesses through its administration of EDA-funded loan and grant programs. The Office also formerly operated a state-funded loan guarantee program for small businesses through three regional nonprofit corporations. That program is now operated by a sister office for small business development in the same department.

Unlike the development agencies of many other states, California's Office of Local Economic Development distinguishes between economic development and industrial recruitment: "Industrial development is not an end in itself," states a Handbook on Economic Development prepared by the League of California Cities, "but only one of several possibilities for improving the economic situation of a community. The priorities of the community may be better served by the development of retail, commercial, agricultural, or other sectors." The Office also urges local governments to focus on strengthening existing businesses: "Existing Industry -- Take Care of Your Own First" is a chapter heading in the same Handbook. The Office's current focus is on encouraging local governments, through use of local intermediaries, to form economic development corporations. The Pittsburg Housing and Economic Development Corporation, itself a certified SBA 503 corporation, is one such state-supported intermediary. This past year, it worked with thirty small cities and published a guide on establishing a revolving loan fund.

The Office is involved in identifying what it calls "non-service or non-capital approaches to enhance business development." Some of its ideas include one-stop permit processing, the use of planning and zoning regulations to encourage economic development, joint ventures with the private sector, new bonding approaches, and the lease of property to generate revenues. Public development of industrial parks is encouraged when private investment is not available. And increasing emphasis is being placed on local governments' use of HUD UDAG and Community Development Block Grants for economic development.

A legislative appropriation of $226,460 currently supports the Office. These resources are considerably less than the appropriation the Office began with four years ago. Staff has been cut from 22 to nine, and the considerable resources that came from EDA's public works grants and Section 304 technical assistance programs are no longer available. In response, the Office has more vigorously targeted communities which will receive its help, and it is developing a network of intermediary local organizations to provide the on-site assistance and training which can no longer be provided by the Office's staff.

Arcata, a northern coastal city of 13,000 people, can be viewed as an example of the Office's new targeting policy. The city was first the subject of an economic development strategy prepared by Office staff, and later the recipient of more than $1 million in state and federal grants to staff a local development corporation, capitalize a revolving loan fund, and develop an industrial park. The Office was impressed with the receptivity of Arcata's local officials and with the potential for building on investments in businesses affected by Redwood National Park and financed through the Redwood Regional Economic Development Commission. Arcata has become something of a showcase for the Office.

The Office's targeting effort is being emulated by the Department of Business and Economic Development as a whole. Each of the offices in the Department is in the process of selecting five to ten communities on which to concentrate its efforts in business development, tourism, industrial recruitment, and local government assistance. Though geographic representativeness is being sought, receptivity of local officials to state help is the primary criterion for selection of the communities.

In sum, though the Office of Local Economic Development is not specifically a rural-oriented agency, it serves mostly small cities, many of which are in non-metropolitan counties. It has served as a conduit for EDA-funded activities and policies and as an advocate of EDA's focus on OEDP Committees, industrial parks, and, more recently, revolving loan funds. The Office's emphasis on building the capacity of local governments to help existing business, as opposed to recruiting new industries, is noteworthy.

The lead role in promoting and supporting innovative approaches to job creation in the rural areas of California has been taken by the California State CETA Office. That leadership is the result of five years of deliberate research, strategy development, local capacity-building, and patient commitment by office staff. It is also related to the control of one of the few sources of discretionary funding for economic development: the Governor's 4% fund.

Unlike most other state CETA offices, CETA-O, as California's is commonly called, set up a special rural development unit to complement its urban research and demonstration activities. And unlike many other state CETA offices, CETA-O based its rural investment policy on research geared to identifying the most serious labor market problems and promising strategies in rural areas. While resisting demands for funding made by other government agencies and local operators, CETA-O contracted out several major research efforts, including a compilation of case studies of non-agricultural rural development institutions in four states; a compendium of examples of successful job creation ventures in alternative energy, forest resources, and small farming in rural California; and a major examination of the family farm in the state.

CETA-O's role in the Small Farm Viability Project illustrates some of its important operating principles: ownership of demonstration projects by traditional lead agencies, and repeated investments to strengthen the chances of such projects for institutionalization.

Funded by the Community Services Administration, the Small Farm Viability Project was a cooperative effort of EDD (CETA-O's parent agency), the Governor's Office of Policy and Research, the Department of Food and Agriculture, and the Department of Housing and Community Development. More than 80 experts on various aspects of rural and agricultural development participated as members of six task forces. Interest in and ownership of the report, consequently, were shared by many critical actors in the rural development process.

Since the publication of the report in late 1977, CETA-O has used its funds for projects that lay the groundwork for implementing the recommendations of the report. Thus CETA-C funded prototype small farm resource centers at two community colleges to coordinate information essential to the self-employed family farmer. The resource centers also developed short courses to meet the needs of local farmers and secured the support of local public and private agencies. CETA-O uses the prototype resource centers as one base for the Small Farmer Information Access System -- a statewide system for gathering and disseminating information critical to the small family farmer. CETA-O also funded bilingual programming of agricultural information at a local radio station to expand the outreach of the information system. Perhaps most importantly, CETA-O, as an active member of the Small Farmer Information Access Council, helped push for the location of the information system at the University of California at Davis -- the heart of the state's agricultural research program. CETA-O's hope is to get the university to recognize the need for the information system and to agree to fund the system.

Another operating principle in many of CETA-O's projects is the attempt to strengthen the capacity of community-based organizations for economic development. As part of that attempt, CETA-O funds such organizations as the California Federation of Technology and Resources (which works with community development corporations), the Rural Community Assistance Corporation (which works with local housing rehabilitation groups), and the Confederacion Agricola de California (which works with local production cooperatives). Though some of these efforts have not succeeded as CETA-O would have wished, the Office continues to support the organizations because its staff sees economic development as a long-term process involving frequent experimentation as well as patient evaluation and reinvestment.

CETA-O provides support for new approaches to job creation, particularly those based on local natural resources. Thus it provided funding to a community development corporation to develop a curriculum and an institutional framework for coordinating and training workers, forestry contractors, and small landowners in reforestation techniques; it supported a nonprofit research and demonstration organization in its efforts to create jobs through clearing formerly fish-filled streams of forest debris put there as a result of timbering; and it funded another local organization to study the viability of labor-intensive wool-carding.

Most recently, CETA-O is taking the lead in responding to the state's increasing number of industrial plant closures. Its support includes the provision of funding for two staff persons in EDD to coordinate agency assistance for stricken communities and to work closely with unions and other organizations in the development of legislative proposals. It is also funding a prototype displaced workers center in the heart of the lumber country.

In short, CETA-O approaches its task of responding to serious labor market problems in rural areas with a long-term, developmental perspective. The approach involves fostering ownership of demonstration projects among the critical agencies involved; building the capacity of local economic development organizations to plan and operate local projects; accumulating and disseminating a knowledge base about rural development problems and approaches; and supporting experimentation in novel forms of job creation, particularly those which involve a labor-intensive and ecologically sound exploitation of the local resource base.

Two recent developments, however, are undercutting CETA-O's effectiveness. Most obviously, the considerable cuts in funding for the office severely limit its staff and project support capability. Secondly, administrative changes have produced a shift to competitive funding based on RFPs followed by project monitoring, rather than the active development and nurturing of projects characteristic of the past. Despite the rather bleak future, it seems safe to say that CETA-O's past efforts will continue to bear fruit from the base of stronger local organizations with clearer visions of rural development which CETA-O has helped to foster.

Local Programs Studied

Seven northern California projects have been selected for in-depth treatment. Three of the projects involve local development corporations; two operate under the auspices of a community development corporation; another operates through a locally based research and demonstration organization; and the final project works through the community college and university system. Five of the seven projects have been supported or are currently supported by CETA-O's rural development unit.

The Superior California Development Council (SCDC) was chosen because it has been very successful with traditional economic development strategies. As a SBA 502 corporation, it has packaged more loans than any other such agency in California. As the developer of an industrial park, it has brought 1200 jobs into Shasta County. Less traditionally, SCDC has devoted most of its energies to assisting local expansion rather than to solicitation of outside industries. It has engaged in a deliberate and painstaking community education and investment strategy which has enabled it to support itself when few federal administrative funds were available. And in the past few years, it has broadened its scope from a single county to a four-county area. In short, it is the dominant institution for local economic development in northeastern California.

The second project under study -- the Burney-McCloud Revolving Loan Fund -- is, in many ways, a stepchild of SCDC. SCDC was the formal recipient of both the EDA grant that established the revolving loan fund and the state CETA grant that supports staff, and it has been deeply involved in the project from the very beginning. Burney and McCloud are towns in an area of north-central California in which the two major employers -- lumber mills -- closed and put more than 700 people out of work. The plant closings are of interest because state officials took an active role in responding to the crisis, and the strategy of job creation through a revolving loan fund was applied. Moreover, acceptable recipients for nearly $800,000 in loans were found in a relatively remote rural area within one year.

The third project is a local development corporation in northwestern California -- the Arcata Economic Development Corporation. Though less than two years old, this LDC has a good reputation with both the state Office of Local Economic Development and CETA-O. It uses a combination of both traditional and nontraditional approaches and is currenly being supported by the state CETA office to provide the impetus and assistance to smaller LDCs in its county. Thus the Arcata Economic Development Corporation functions as a quasi-regional LDC.

The Business Support Center of the Redwood Community Development Council is a project which operates in the same area as the Arcata LDC. It provides an excellent example of a small business assistance program that relies neither on highly skilled staff nor on complex remedies. It is also interesting because of the intermediary role it plays with respect to its clients, financial institutions, and business professors at the local community college.

The fifth project under study is also operated under the auspices of the Redwood Community Development Council -- the Forest Improvement Center. The clearcutting practices of lumber companies and the nearly depleted forest have created a need for reforestation and land rehabilitation. A rash of lumber mill closings and the expansion of Redwood National Park have also created a need for new employment for many hundreds of displaced workers. The Forest Improvement Center was created to train displaced workers in skills required by small reforestation contracting businesses; to provide the contractors with information about business opportunities, business skills, and trained labor; and to educate local landholders about available incentives for better management of their properties. The Center is an example of a job creation strategy effected in response to both environmental and economic pressures.

A related project is the Mendocino Fisheries Improvement Program, which is operated by an independent research and demonstration organization in Ukiah. This project created the demand for a particular type of labor and business -- stream clearance and restoration; trained CETA-eligibles to do the job; and secured a source of public funds for the work.

The final project under study was operated by the Northern California Higher Education Council, a consortium of six community colleges and two universities in northeastern California. The project encompassed a broad effort to get the community colleges actively and purposefully involved in local economic development through several local projects involving small farming, forest improvement, energy development, and small business assistance.

II. RURAL DEVELOPMENT PROGRAMS AND INSTITUTIONS

Superior California Development Corporation

Background

The Superior California Development Corporation is the EDA-designated economic development body for a four-county area in northeastern California (Shasta, Trinity, Siskiyou, and Modoc Counties). Until two years ago, the organization served only one county and was known as the Economic Development Corporation of Shasta County. In its twenty-year-plus history under two names, the corporation has amassed more than $8 million in assets, packaged over $40 million in loan and grant projects, developed an industrial park with 60 tenants and more than 1200 employees, and established itself as the leading economic development institution in northeastern California.

The economic development district served by SCDC is large (an area equivalent to Rhode Island, Connecticut, Massachusetts and half of Vermont combined), but sparsely populated (182,000 people). Much of the land in the district is owned by the government (the four counties contain all or parts of seven national forests) and by large timber companies. Forty percent of the district's workers are employed in forestry and agriculture; recreation is a third, and rapidly expanding, source of jobs. The district has grown in population by nearly forty percent since 1970 -- almost entirely because of in-migration. Yet unemployment remains high, ranging from 24.9 percent in Trinity County in January of this year to a low of 11.3% in Modoc. Numerous lumber mill closings in the last two years have put almost 2,000 people out of work.

Redding is the district's most sizable city. Situated midway between Los Angles and Seattle, bisected by Interstate 5, and close to such recreational attractions as Mt. Shasta and Whiskeytown Lake, Redding has, over the past twenty years, blossomed into a regional center for government, warehousing and services, and diversified manufacturing.

Such prosperity was not in evidence when the EDC of Shasta County was organized in 1958. The EDC's very formation, in fact, was motivated by the area's dependence on a single, seasonal industry and the recognized need for diversification. The original EDC was organized as a private nonprofit agency with a board of nine citizens appointed by the county supervisors. Seven years later, the EDC's current director took over. The owner of a family lumber business and a former mayor of Redding, this individual has been absolutely central to the EDC's subsequent success.

The director began with several premises, the first being that community education would have to precede all other efforts. Thus he embarked on a two-and-one-half year educational campaign, speaking to every conceivable local organization about the need for economic development, while warning at the same time that it could be a slow and seemingly unremunerative process. His second premise was that new investment could only be lured by a well-prepared community; his third, that expansion of local industry represented the best route for strenghtening the economic base.

After the period of community education, the director sold $250,000 worth of noninterest bearing, nonguaranteed, fifteen-year notes to local residents and businesses. Local banks subscribed to the first ten percent. The money from the notes, supplemented by an EDA grant, paid for the purchase and development of the first phase of an industrial park. The EDC was also chartered as a SBA 502 corporation, and was thus able to offer 100% financing packages for many of its start-up or expansion projects: 40% from SBA, 50% from bank financing, and 10% from EDC loans secured with the EDC's industrial park land as collateral.

Cultivating a cooperative relationship with bankers and business leaders was the fourth premise of the EDC director. He has tried to stay outside the political arena. He believes that the public sector-dominated board of the enlarged SCDC is less effective than was the largely private sector board of the original, one-county EDC.

Activities

SCDC plays -- and EDC/Shasta played before it -- six major roles: developer, financial planner and packager, facilitator, rural advocate, planner and grantsman, and industrial recruiter.[1]

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[1] The following treatment will refer to EDC rather than SCDC, since most of the activities discussed were initiated by the earlier organization.

1. Developer. The EDC's role as developer has involved purchasing, developing, and marketing the first two of three phases of the Mountain Lakes Industrial Park. Underlying this role was the reasoning that no private investor would be interested in a city as small and undeveloped as Redding was at the time.

From the start, the park was a success. Despite the cautious tone of the master plan, the first offering of park locations was sold out in 1975, ten years ahead of schedule. The next offering, 65 acres, went in 18 months. The final parcel of 234 acres was by then so attractive that a private developer (the son of the original property owner) bought it for his own. First-phase land was sold at cost for $5,500 an acre; third-phase land is now going for $55,000 an acre. The original development was helped considerably by the original property owner's generous terms: $10,000 down, 8½% financing, and a three-year moratorium on both interest and principal. EDA was also helpful, providing much of the money for the infrastructure of the first two phases, and financing a rail-line extension for the property.

The early tenants of Mountain Lakes Industrial Park were local businesses which purchased the EDC's 15-year notes. The majority of tenants are also 502 loan recipients. Though the park houses primarily single-plant manufacturing concerns, its tenants also include soft drink distributors, warehouses, and a trucking business. Most tenants have fewer then 60 employees; the largest, with 250 employees, manufactures beauty products.

The first 502 loan the EDC made went to a sheet metal company. That company now employs 25 people. Other loans and park spaces have gone to a houseboat manufacturer (22 employees), a cabinet manufacturer (18 employees), a moving and storage business (6 employees), and a southern California-based firm that makes ignition harnesses for engines (85 employees). The loans have ranged in size from $40,000 to $550,000; most have been for $200,000 or more.

During the second phase of development of the industrial park, a private investor built "industrial condos" -- small spaces for industries that do not require or cannot afford to buy full-sized lots and build complete structures. The tenants of these common-wall quarters include the telephone company, several labs, and a communications business.

2. Financial Planner and Packager. As a financier and packager, the EDC has made more than $8 million in 502 loans and packaged almost $4 million in EDA loans. The EDA loans have been the larger of the two types; they have included a multimillion dollar loan to a hotel and a $1 million-plus loan to a lumber company. The EDC's failure rate for its loans is almost nil, mainly because of its close screening of applicants and its monitoring of their progress after loans are made. Thus, in several cases, the EDC director advised a loan recipient to sell out or persuaded the local lender to delay pressing for payment.

The EDC, in one instance, served as a technology commercialization agent. A Portland-based individual came to the director with a new log skidder -- a product whose potential was easily gauged by the director, with his experience in the lumber business. The individual had not been able to secure financing. The EDC director helped him redesign the skidder; lined him up with ten local investors who provided $250,000 for financing the manufacture of a prototype; supplied him with 502 financing; set up a corporation; helped secure venture capital through a large insurance company; and contracted with a local machine shop operator for the prototype development. The timber companies have expressed considerable interest in the machine.

3. Facilitator. The EDC has served as a facilitator in several ways. It has been a mediator between environmental and government interests, on the one hand, and commercial interests on the other. The EDC, for example, engineered a detailed tour for the state Water Control Board of the northwest region's most advanced pollution control facilities for pulpwood mills. This tour was critical in securing the Board's approval of the establishment of a large pulp mill on the Sacramento River. The EDC has also served in a mediating role between expansion and relocation prospects and local banks, as well as between often absentee landowners and such prospects.

4. Rural Advocate. The EDC's director is a member of both the Governor's and the Lieutenant Governor's Economic Development Commissions, the California Chamber of Commerce, and professional associations of industrial developers. He consciously serves in these positions as an advocate for non-metropolitan areas, though he describes his role as "a voice in the wilderness." His assistant, for example, recently testified at legislative hearings on enterprise zones, speaking for legislation that would be favorable to rural areas.

5. Planner and Grantsman. In its planning capacity, the EDC prepares the regional economic plan for EDA, provides grantsmanship assistance to its member counties (particularly for water and sewer developments), and provides technical assistance to companies requiring extensive environmental reviews and permits. The EDC assisted the Native American Arts Association in planning and evaluating a display center on the interstate highway and initiated an EDA-funded study of geothermal potential in Modoc and Lassen Counties.

As a grantsman, the EDC has served as the applicant for many EDA projects including an airport terminal, a hospital expansion, a civic auditorium, and many infrastructure investments.

6. Industrial Recruiter. The EDC has only recently assumed the role of industrial recruiter. Throughout most of its history, the EDC believed that its solid offerings and reputation would attract the clients that it needed. With its decade of park development over, however, and with increasing pressure from the county supervisors for more jobs in response to the lumber mill closings, the EDC has embarked on a conscious marketing strategy. Under a grant from the county PIC, the Council is designing a sophisticated brochure and is in the process of targeting 50 industries for its recruitment efforts. The EDC has always performed functions related to industrial recruitment, such as collecting information on available sites, the permit process, and appropriate local statistics.

The EDC (and, later, the SCDC) has always operated on a lean budget. Until 1979, the director was the organization's only professional staffer. With regional responsibilities, he is now buttressed by two other professionals. Throughout its history under the current director, the EDC's funds for administration were secured through annual contributions from the local governments. These public donations were supplemented by private "subscribers" who donated $25 to $50 each. As the official agency for an economic development district, the EDC has been provided with a $65,000 yearly grant from EDA for staffing purposes.

Though the EDC shares membership with local employment and training councils and with community college advisory groups, it has almost no functional relationship with those bodies. Its industrial development process has not included a training dimension. The most important relationships have been those with the regional EDA representative and with the region's political representatives, who have helped secure funding through lobbying in Washington.

Assessment

The Economic Development Corporation of Shasta County (later, SCDC) has been successful in diversifying the economic base of a rural, single-industry area. Its tools have been traditional: a zoned and developed industrial park; access to financing; a private sector orientation; and the support of the EDA for other infrastructure investments. Its results have been remarkable: 60 tenants and 1200 employees in its industrial park and more than $12 million in sound loans over 11 years.

Some of this success can be attributed to Redding's natural potential as a regional center and to the area's attractiveness. Other factors include the early and continued support of the local

EDA representative and the reputation and business experience of the director, whose considerable knowledge of the lumber industry enabled him to anticipate and to identify opportunities stemming from that industry's decline.

Equally important to the EDC's success has been the director's preference for assisting local business expansions: "The vast majority of growth comes from within," he says. Thus, little energy has been expended on expensive brochures, recruiting trips, or wining and dining prospects. The director devoted his energies instead to offering his prospects tangible goods (loans and developed land) and to furthering his reputation within the local business community and in professional development circles.

SCDC is expected to survive the current Administration's cutbacks despite its heavy use of EDA and SBA funds in the past. PIC funds and increased public and private donations will probably provide some administrative support, and the SBA 503 program should provide money for loans and generate income from servicing charges.

SCDC's continued success in the three newer member-counties, however, is problematic. Obviously, EDA funding will no longer be available, as it was in Shasta County. Moreover, the newer counties, though possessed of considerable natural resource and recreational assets, are territories of small towns, not budding regional centers, and their leaders are reluctant to have themselves folded into a regional development effort. Despite these barriers, SCDC's first major effort in one of its outlying areas has proved successful so far and will be discussed in the next section.

The Burney-McCloud Revolving Loan Fund

Background

Burney and McCloud are small lumber towns in north-central California. In September 1978, the Publishers Forest Products Mill in Burney closed its doors and put 350 employees out of work. Fifteen months later, the Champion Mill in McCloud closed, leaving 340 workers unemployed. Today, nearly $4 million has been or is being committed for investment in 15 business ventures in the two towns. From 150 to 300 jobs will be created. Such activity is the result of financing provided by the Burney-McCloud Revolving Loan Fund -- an EDA project operating under the aegis of the Superior California Development Council (SCDC).

Burney is an unincorporated town of about 4,000 people in eastern Shasta County. When the mill shut down, more than 700 people applied for unemployment insurance -- a sign of the dependency of Burney's economy on the mill. The purchaser of the property (Times-Mirror Inc. of Los Angeles) was not interested in the obsolescent mill, but in the 25,000 acres that went along with it. Only one small mill was reopened; it required only 60 workers.

McCloud lies 55 miles northwest of Burney in Siskiyou County. Like Burney, it was a one-mill town, but unlike Burney, it was also a true company town. "Mother McCloud," as the Champion Mill was called, owned most of the homes in the town until 1968, and much of the commercial real estate as well. New local investments have been more difficult to stimulate than in Burney because of a history of dependency on the company and because the mill maintained possession of its 600 acres and structures until recently. Thus, of the fifteen loans made through the Revolving Loan Fund so far, only one-third have gone to McCloud.

Numerous actors have been involved in the Burney-McCloud rescue effort. These include local groups, the union (Local 3-64 of IWA), and the Economic Development Corporation of Shasta County, as well as the local community college, the regional consortium of community colleges and universities (Northern California Higher Education Council), the Small Business Development Center at the Chico campus of the University of California, and numerous federal and state agencies.

The first sign of activity came in May 1979 when the EDC of Shasta County received a planning grant from EDA to develop a recovery strategy for Burney. That strategy was based on a review of all local businesses and of the potential for recreational development and possible natural resource-based investments. The review concluded that local businesses were unable to get expansion capital at current interest rates, and that recreational development was not so desirable as other types of investments because of its limited multiplier effect. The review also identified three major investment prospects: an Oakland-based company that was interested in building a $5 million plant to extract and manufacture ethanol and alcohol for gasohol from forest wastes (125 employees); and two companies interested in mining the area's extensive deposits of diatomaceous earth (a combined investment of $15 million; 150 employees).

Though the plan was completed before the McCloud mill closure, the shutdown was expected and its effects were reflected in the strategy. Possible investment targets identified included the purchase of part of the old Champion site by a manufacturer of louvers and panels who was interested in expanding to the area (40 workers); the acquisition and remodeling of the old McCloud Hotel (60 jobs); the revival of the McCloud River Railroad, primarily for tourist purposes; and the reopening of three small sawmills in neighboring Trinity County.

The strategy report concluded that a $200,000 Revolving Loan Fund would be an appropriate mechanism for the rescue effort. The request to establish the Fund was approved by EDA, and, after the mill shutdown, the Fund was expanded to $1 million. The money was actually in hand slightly less than a year after the completion of the strategy report in August of 1980.

The next major outside group to become involved was the California Rural Development Committee (RDC). In January 1980 -- soon after the McCloud closing -- the Committee decided that the resultant situation was a suitable subject for its interagency attention. RDC appointed a subcommittee for continued study and recommended that a local community development staff person be hired, whose responsibilities would include overseeing the Revolving Loan Fund (which had already been informally approved) and coordinating needed human services and training. The position was financed through the rural development unit of the state CETA office.

The local community college (in concert with the Northern California Higher Education Council) sponsored a three-day workshop in McCloud in June 1980. It provided instruction in job-search skills and career planning and presented a listing of all jobs available within a 300-mile radius. The workshop was timed to coincide with the expiration of the mill workers' unemployment benefits. Sixty former mill workers participated, and 40 returned for a follow-up session one month later. The community college consortium also undertook a study of the feasibility of incorporating McCloud. The Small Business Development Center at the university in Chico provided Burney with a study of retail sales leakages and an engineering review of its sewerage problems. The Center also assisted the Northeastern Shasta Local Development Corporation (based in Burney) with its incorporation in January 1980.

Another important actor was the McCloud River Railroad. Running between Burney and McCloud and previously used by both Champion and Publisher Mills, the railroad was deeply interested in attracting new business into the area. With considerable support from local politicians and SCDC, it successfully competed for a $1.2 million grant from CAL-TRANS (the state's transportation commission) to repair the rail line. The railroad has financed the publication and distribution of a glossy promotional brochure for the area, and it donated 18 acres to the Burney Industrial Park. The railroad has also become a major investor in one of the firms interested in mining diatomaceous earth.

The Revolving Loan Fund

Under a $45,000 grant from the state CETA office, a staff person was hired in September 1980 to administer the Revolving Loan Fund (RLF). SCDC had one primary hiring condition: that the person be local, "someone who can tell the winners from the losers." A former shipping agent from Publishers Mill was hired, and offices were set up in both Burney and McCloud. SCDC provided the training it thought necessary; additional funds were set aside for consulting advice from accountants, attorneys, and engineers.

Several criteria to be used in making loans had been set out in the grant application. The applicant had to supply two-thirds of the necessary money and had to promise that at least one job would be created for each $10,000 of EDA investment. SCDC staff were also careful to ensure that the Loan Fund contributed to the diversification of the local economy, that it resulted in the reemployment of dislocated workers, and that it centered on the use of local skills and natural resources.

More than 1500 groups and individuals have expressed interest in receiving help from the RLF. Requests for loans have been rejected primarily for two reasons: inability of the applicant to provide the two-thirds match; and lack of understanding of or interest in the job creation requirements. Many applicants merely wanted money for refinancing. Staff are quite cautious, particularly with applicants about whom there are unanswered questions. Thus in the case of one of the companies interested in mining diatomaceous earth, the Executive Committee of SCDC (which serves as the loan committee) took two months to make a decision, even after personally interviewing the company president from Denver and securing a first trust deed on 2,000 acres of the company's land.

The fifteen loans made from September 1980 through July of 1981 account for approximately $750,000 of the million-dollar fund and involve 15 separate recipients. The loans range in size from several thousand dollars to a former logger who opened a porcelain finishing business to several hundred thousand dollars to an individual who plans to mine crushed lava rock for use in landscaping. Some of the loan recipients plan to use scrap forest products in their new operations: boxing kindling, making posts from sawshop thinnings and chips, manufacturing wood pellets. Other recipients plan more conventional service businesses: expanding an office cleaning operation; remodeling a hotel restaurant and bar; expanding a general merchandise store; and the like. An ex-millhand wants to start a long-haul trucking operation; a fuel distributor wants to convert auto engines to use propane gas.

The loans are for short terms -- one to seven years -- and bear low interest rates -- seven to ten percent. Most of the recipients' two-thirds matching contributions have come from local banks, though some have come from personal sources. In one case, the PIC of Shasta County is involved in helping to finance a small loan.

Assessment

Burney and McCloud are small towns, weakened by the closing of their primary employers, isolated from major cities and economic activity. Yet the Burney-McCloud Revolving Loan Fund has been successful beyond expectation in finding interested and qualified customers for its money. In the first six months, more than $500,000 in loans had been committed. And in the first year, more than 1500 people expressed interest in the Fund. The low interest rate offered is one obvious explanation for the popularity of the program.

But the volume of activity generated belies much of the conventional wisdom about the lack of initiative and prospects in rural areas.

Another important reason for the RLF's success in attracting customers is the accessibility and local knowledge of the chief staff person involved. Over the year, his role has evolved from that of loan packager to that of serving as a full-service business assistance center.

Another reason for the RLF's success has been the loan committee's innate sense of what was appropriate: though a mining firm that might hire hundreds of workers was a very attractive prospect, small service businesses that could hire just a handful of people each were also viewed as important resources for job creation in these small towns.

Obviously, it will take many years if the RLF is to generate sufficient investment for re-creating the 700 jobs lost in the mill closings. At this point, most of the jobs that have been created pay less than did the unionized jobs at the lumber mills. There is also some question about how many of the jobs that will be created will be filled by displaced mill workers. For not only does the area have a considerable population of qualified in-migrants, but many of the loans are going to small businesses which require a fairly high degree of management skills.

Criticism has also been leveled at SCDC for not using the state CETA grant to link up with training and other services for the displaced workers. These critics believe that staff time was spent solely in administering the Fund and not on the broader range of activities envisioned by the Rural Development Committee.

Regardless of its shortcomings, however, the RLF is assuredly creating jobs in Burney and McCloud, both in small businesses and in manufacturing and mining concerns using the natural resource base of the area. Given that dollars from the Fund will repeatedly be ploughed back into the community, the Revolving Loan Fund seems an effective and efficient method of job creation.

Arcata Economic Development Corporation

Background

Arcata is an old lumber and fishing town of 13,000 people on the California coast about 275 miles north of San Francisco. It is the home of Humboldt State University, and it is the fastest growing town in Humboldt County. Just over ten miles from the larger city of Eureka, it is also close to Redwood National Park. Like much of northern California, Arcata has been hard hit by numerous lumber mill closings and by the expansion of the Park. The area's transportation facilities are weak. Harbors are small, and the surrounding mountains inhibit rail and road systems. Two years ago, an air line strike, the collapse of a railroad tunnel, and a rock slide on the major highway combined virtually to cut off access to the region.

A 502 Local Development Corporation, the Arcata Economic Development Corporation (AEDC), was formed two years ago, primarily at the prodding of the state's Office of Local Economic Development. The state Office prepared an economic strategy for Arcata, chiefly in response to the economic problems created by expansion of Redwood National Park. Finding sympathetic local officials in Arcata, the state funneled over $1 million into AEDC, primarily in EDA funds, to support staff and to provide the infrastructure for an industrial park. With the state's help, AEDC also received a four-year, $1.25 million grant from the state's competitive Small Cities Community Development Block Grant program. The CDBG grant has been used to purchase land for the park, for housing development, for staffing AEDC, and for an industrial "mini-loan" program.

AEDC initially had the support of a variety of institutions in the community. The Redwood Community Development Council helped with the incorporation and paperwork process; the city's planning department provided staff for AEDC's first eight months. Both the Chamber of Commerce and an alternative business organization are represented on the board, as are the CDC and timber, energy, industrial, and environmental interests. AEDC is staffed by a director (the city's former assistant planning director), a housing officer, and a loan officer.

This year, AEDC received a grant from the state CETA office to assist other towns in Humboldt County to establish and operate LDCs. The Humboldt County Private Industry Council has also supplied funds for use in developing a marketing strategy.

Activities

AEDC activities most relevant to this study fall into three categories: packaging loans and financial assistance for small businesses; developing an industrial park and an arts center; and marketing the park and the center. Additionally, AEDC has been active in housing rehabilitation, developing cooperatively owned housing, and assisting smaller and newer LDCs.

1. Small Business Assistance. To date, AEDC has made ten loans. The largest loan was to a food market and was made with EDA 304 funds. Three loans involving 90 percent SBA 502 guarantees have been arranged -- for a pet store, a mobile home center, and a fabrics store. The guaranteed loans ranged from $39,000 to $144,000; AEDC contributed approximately eight percent of each package from its CDBG "mini-loan" fund.

The mini-loan program involves a $200,000 fund for use as loans of not more than $10,000 each. This resource is primarily targeted for expansion of small, local manufacturing concerns. The focus on manufacturing, says the director, comes from the belief that such support can create the greatest value-added and thus "import income to the county." So far, approximately $60,000 of the mini-loan fund has been invested, and almost $750,000 has been leveraged in private funds -- a very respectable 1:12 ratio. Mini-loans have gone to a janitorial service, a five-year-old sporting goods manufacturer, and to a new business that is developing children's radio shows and cassettes for children's books. Despite its level of apparent risk, this last effort was approved by AEDC because several of the partners were perceived to have good business backgrounds, a "good" lawyer was involved, and the loan package "showed a lot of thought." The business is currently trying to expand its market to Portland and San Francisco radio stations.

About half of AEDC's loans will go for the construction of new facilities, and half for working capital. Most of the businesses assisted are family-owned firms or partnerships. It is estimated that 50 jobs have been created or saved by the ten loans made so far.

2. Development. In addition to its packaging and financing role, AEDC is involved in developing a 50-acre industrial park. The space is intended for large company expansions or branch plants; no small parcels or "incubator spaces" are anticipated. The director, pointing out that smaller sites are available elsewhere in the city, explained that AEDC does not want to compete with the private sector.

Another project that AEDC is developing is the Pacific Arts Center Barn Project. A city revenue bond program furnished the funds for purchase of the land and a building; the necessary rehabilitation, however, has not yet begun, since AEDC planned to carry it out with EDA funding.

3. Marketing. Recently, AEDC has undertaken an attempt to market the area as a location for high-technology electronics assembly firms. The PIC-funded effort has involved advertising in the Wall Street Journal, in San Francisco and Los Angeles newspapers, and in national trade journals for site developers and the electronics industry. Color brochures have been mailed to 1,200 selected firms which might be interested in relocating. The director of AEDC pointed out that Humboldt County is one of only three areas in California that is advertising in national publications.

Assessment

The Arcata Economic Development Corporation has been supported by funds from EDA, HUD, the county PIC, and most recently, the state CETA office. It has used these funds both for traditional and innovative development activities. Its emphasis on an industrial park and the recruitment of branch plants is complemented by the provision of financial assistance to small, local businesses, particularly small manufacturing enterprises. Though its major marketing efforts match the activities of most industrial developers, its attempts to market collectively the works of local artists, particularly those with the potential for small manufacturing spinoffs, is unconventional. It should also be noted that its traditional industrial recruitment efforts involve careful targeting.

This mix of externally oriented and locally based resource development strategies is not necessarily acceptable to all major actors in the area. The Redwood CDC, for example, believes that the original intent of the industrial park was a much broader one, one that would have welcomed cooperatives and warehouses as tenants as well as branch electronics plants. There is also debate within the community over the desirability of seeking Silicon Valley-type relocations.

Much of the success of AEDC in its short career to date has resulted from the support of the California Office of Local Development. That Office's efforts helped to initiate the local organization; and its encouragement helped secure the EDA and CDBG funding.

As for assisting the creation and development of smaller LDCs in the county, AEDC believes that this purpose could be better served through a county-level staff.

Perhaps the major question concerning the effectiveness of the Arcata Economic Development Corporation in helping to provide a more diverse and secure economic base for the community is whether it has sufficient staff to cover the wide range of activities it is now involved in. Other questions also suggest themselves. For example, is financial assistance being furnished to as many local businesses as are capable of creating more job opportunities? And, if not, do the efforts to recruit outside electronics firms make sense, especially in light of similar efforts of other states and cities and of the natural resource base of the North Coast?

AEDC's funding base seems relatively secure despite the demise of EDA programs. It is considering applying for SBA 503 status, and it expects the county to participate with it in packaging industrial loans once the California Industrial Revenue Bond Authority is authorized to act by the State Treasurer. It appears likely to continue receiving Community Development Block Grant funds, and its mini-loan program, based on a revolving fund, will continue to generate dollars for limited investments. Payoff on the major investment -- the industrial park -- is, of course, a question that only the future can answer.

The Business Support Center

Background

The Business Support Center is a project of the Redwood Community Development Council (RCDC) in Eureka. The Center's purpose is to provide technical assistance in the areas of management, financing, planning, and accounting for both new and existing small businesses in Humboldt County. Staffed by a director and an assistant, the Center formally opened its doors in June 1980, funded by the Humboldt

County PIC. In its first year of operation, the Center made contact with almost 200 businesses and provided technical and financial assistance and other services to 68 of them.

The Center's director was previously an accountant for RCDC, and before that she was treasurer of a dry kiln business in Los Angeles. As RCDC accountant, she volunteered to help a small redwood-building manufacturer package a loan. At that time, she knew little about business planning or management, marketing, packaging, or financing. She was, however, an able accountant. Convinced that a source of assistance for small local businesses was needed, she and RCDC secured $55,000 from the PIC to begin the Center.

The Business Support Center provides four general types of assistance: (1) counseling on management skills, ownership strengths, and financial prospects; (2) technical assistance with specific business problems; (3) assistance with loan proposals; and (4) evaluation and follow-up. The assistance process generally begins with a weekly, four-hour workshop on the basics of starting and operating a business. The first workshop serves to weed out the less-than-committed by requiring participants to prepare a resume, a personal financial statement and family budget, a business plan, a project operating strategy, and a list of project start-up costs for the next meeting.

The Center also conducts workshops on topics suggested by local businesses: bookkeeping and accounting basics, indicators for avoiding business failure, management of sales employees. Less conventional workshops have also been held, including one for nonprofit organizations on setting up for-profit businesses;

38 agencies attended. The workshops employ faculty from Humboldt State University, local businesspeople, and experts from such organizations as the National Economic Development and Law Center at Berkeley.

The Center has developed a productive relationship with the business faculty at Humboldt State. Recognizing that academics and small businesspeople often have difficulty communicating, the director always sits in on the sessions to serve as an intermediary. Faculty participants are paid on a consulting basis, as are other participants whose special skills are required.

Almost half the Center's clients have been service businesses; the other half has consisted of a fairly even mixture of retail, wholesale, and manufacturing firms and of a sprinkling of cooperatives and R&D companies. The proprietors of the area's more established businesses were at first reticent to approach the Center. Word of effective assistance slowly spread among that group, however, and since then the flow of clients has been steady.

New businesses assisted by the Center have included a hardwood mill, a carbon plant, a firm manufacturing a tree-support system for orchards, and a packhorse rental company operating in Redwood National Park. A successful experience with an existing business involved a downtown drugstore which had been hurt by the opening of a new mall. The owner approached the Center for advice about paying off her original loan. She was in a poor cash position, and her bank was unwilling to refinance a burdensome trust arrangement. The Center brought in a marketing expert from Humboldt State who decided that the drugstore's best potential lay in providing highly personalized pharmaceutical services to its clientele rather than in continuing its attempts to offer the wide range of merchandise available at a chain drugstore. On those grounds, the Center persuaded the bank to extend its original loan, and the business is also seeking additional assistance from SBA.

The Business Support Center has no financial resources of its own. Though most of the staff efforts have involved providing technical assistance, staff have also helped clients arrange financial assistance through the SBA, the Redwood Regional Economic Development Corporation, AEDC, and local banks.

The Center maintains working relations with a broad range of programs and institutions -- Humboldt State, the Arcata Economic Development Corporation, the Redwood Regional Development Corporation, the United Indian Development Association, and, of course, the banks. The banks were uncomfortable at first with loan guarantee programs, but they now refer clients to the Center for help with loan packaging.

Assessment

The Business Support Center has been providing a needed service in Humboldt County. Expressions of interest from nearly 200 businesses within the first year of operation testify to the need. Another important point is the relative simplicity of the Center's service: highly qualified technicians are not needed to salvage or start businesses. Rather, a sound process for weeding out poor prospects, a sympathetic ear, a knowledge of business planning and packaging, and an ability to ascertain when more technical advice is needed are the essential ingredients. Many of these skills can be self-taught or acquired with a minimum of assistance from experienced practitioners. A budget of $55,000 has been sufficient to support the Center's staff and to purchase help from consultants.

The Center's director was able to win over local bankers and the leaders of other established institutions primarily through patience and persistence. Her business background, of course, was helpful, and her status as a near-native made it easier for local businesspeople to seek out her help. This accessibility was enhanced by the Center's physical location in the CDC office.

The director believes that the Center's affiliation with the CDC has been a source of both strengths and weaknesses. RCDC has imparted to the Center a sound knowledge of the community, and it has served as a source of inspiration and ideas. On the other hand, RCDC's activist stance against the use of pesticides by the timber companies has made the Center's work with the business community more difficult.

The Center's relationship with RCDC is academic at this point, however, since the relationship ended recently when RCDC merged with a new community action agency. The Center is assuming an independent status with respect to structure and support, and its PIC-provided funding has only six months to run.

The Center is faced with the necessity of charging fees for assistance provided. This matches the PIC's belief that the Center should be self-sufficient. The director, however, feels that, under a fee system, the Center would no longer be able to help many businesses which need assistance. Still, no other alternatives for funding have been advanced, nor have alternative means of housing the Center been suggested.

In sum, the Business Support Center has demonstated that a simply constructed technical assistance program stressing packaging and planning, with access to analysis and marketing resources, can play a useful role in a community. Unfortunately, the problems of suitable housing and financial support for the program remain unanswered, even as the Center's remaining time is expiring.

The Forest Improvement Center

Background

Like the Business Support Center, the Forest Improvement Center is a project of the Redwood Community Development Council in Humboldt County. Its purpose is to train workers, contractors, and forest landowners in the techniques of forest regeneration and in the acquisition and use of available state and federal subsidies for that work.

Humboldt County has been stricken by a wholesale loss of forestry jobs. Unemployment is currently at 14 percent, and timber jobs in 1979 numbered only 5800 -- down from the 13,200 level of twenty years before. The area has also seen the failure of a massive infusion of federal dollars intended to provide displaced workers with new skills and jobs. The Redwood Employee Protection Program, in response to the expansion of Redwood National Park in 1978, provided displaced workers with more than $20 million in benefit and severance payments. Despite the available dollars, only 10 percent of the displaced workers availed themselves of the educational and retraining resources. The problem was obviously not one of money, but of the lack of local institutional capacity to respond.

The Forest Improvement Center was founded in January 1979 when local leaders realized the potential for the creation of jobs that lay in the enormous tracts of public lands which required huge amounts of labor-intensive improvement and rehabilitation. Indeed, Redwood National Park alone had a budget of nearly $30 million for erosion control and revegetation. Yet no work force sufficiently skilled and specialized for the work was available.

The initial phase of the Center's work was financed by the state CETA office. In its first year, the Center developed a seven-month training curriculum (and a 200-page textbook) for forest improvement technicians. The Center also negotiated a five-year agreement with Redwood National Park for use of the Park's land for model watershed rehabilitation projects.

With CETA Title VII funds from the county, the Center began its training program in June 1980. The goal was to produce graduates who would serve as crewleaders and independent contractors in forest rehabilitation work. Trainees received instruction at a local community college and at the Center in such areas as watershed dynamics, contract bidding, business management, crew organization and worker relations, and job-search skills. On Park lands, trainees got hands-on instruction in safety, tool use and maintenance, erosion control, revegetation, trail construction, stream clearance, mobile mill work and salvage utilization, woodlot maintenance, seed cone collection, and seedling nursery operations. The program stressed the advantages that would accrue to trainees who established independent businesses or cooperatives. One such cooperative, involving six trainees from the Center's second training cycle, has already been formed.

The Center also worked with established contractors who could hire the newly trained workers. It compiled "The FIC Workline,"[1] a current list of operating subcontractors and trained workers, and it provided contractors with weekly listings of government contracts to be let, including maps and specifications. Up-to-date information on technical innovations in the field was supplied to practitioners, and business assistance was arranged through the Business Support Center.

The Center offered its services to the many small landowners who hold approximately one-third of the area's forest land, but who actively manage little of it. These small landowners are eligible for both state and federal cost-sharing programs and tax incentives for forest management and improvement work. The staff has promoted those programs and its services to the small landowners through mailings and through workshops at the local community college. The workshops covered forest improvement project planning and proposal writing and included an assessment of the state's new Forest Improvement Practices Act. The Center also staged workshops for contractors and forest workers on erosion control, seed cone collection, and forest improvement contracting as a means of expanding the number of trained workers beyond the twenty participants in the Center's formal training program.

Assessment

In its more than two years of operation, the Forest Improvement Center has developed an extensive curriculum for training workers, contractors, and landowners in the use of available methodologies and government resources for the regeneration of local forest lands. The developmental phase of the program was funded by the state's CETA office; the first two training cycles were supported by the county PIC. No new funds, however, have been found to continue the program in its current form. Staff members hope that the community college will continue to offer the for-credit workshops that were developed for landowners, contractors, and forest workers.

The Center is notable for its broad focus. It did not simply attempt to train workers in an area in which demand was expanding; it attempted to expand that demand even further. Careful research at project start-up identified the critical actors: the many small landowners eligible for, but ignorant of, available government subsidies; the small contractors, lacking information about available work, business skills, and skilled labor; and the unemployed, often displaced workers, familiar with the forest but not trained in the techniques for regenerating it. The Center realized that job creation is a process of outreach, education, and facilitation, as well as one of training.

The Forest Improvement Center also seeks to couch its program in the larger context of the community's mill-closing problem. It helped prepare a proposal to the state CETA office for funding for a local worker displacement center, which it hoped it could employ as a pool for trainees for its forest improvement training center. The displaced worker center was funded, but the Center's forest training program was not. Staff worry that essential job creation aspects of helping displaced workers will be lost.

Another interesting aspect of the Forest Improvement Center's program is its emphasis on training workers to operate their own business or to join together in cooperatives. Staff realize that forest regeneration work, since it is highly labor-intensive, is well suited to small, independent contractors. Consequently trainees are provided instruction in management skills and are referred to the Business Support Center for assistance if they should wish to start their own firms.

The Forest Improvement Center provides a model job creation effort that considers all sides of the supply and demand equation and concentrates on a work-area in which skilled labor, rather than extensive capital, is required. One might assume that, given sufficient time, community support would develop for institutionalization of the Center's training programs in the community college. Staff would also like to see intensive training offered in stream rehabilitation, hardwood processing, lumber marketing, and housing rehabilitation in addition to reforestation -- all areas in which staff see a growing demand and also a productive use of the region's resources. The opportunities and experience for a broader effort of that sort are in place in Humboldt County; the money is not.

The Mendocino Fisheries Improvement Program

Background

The Mendocino Fisheries Improvement Program is a unique and successful vehicle for creating jobs through the restoration of a depleted natural resource base. Operated by the Center for Education and Manpower Resources (CEMR), a private nonprofit research and demonstration agency based in Ukiah, the program has evolved from a CETA-supported reforestation effort to a stream clearance and wood salvage operation financed by both large timber companies and state funds.

Like other counties in coastal, northern California, Mendocino County has been hit hard by the declining timber industry: In 1950, one billion board feet were harvested in the county; by 1980, this figure was down to 330 million. The stands of first-growth redwood and Douglas fir are nearly gone, and unemployment has risen to sixteen percent.

Timber, however, is not the only depleted natural resource in Mendocino County. The native population of anadromous salmon and steelhead trout, quarry for commercial and sport fishermen alike, has declined drastically. The decline is due in large part to the blockage of streams with debris which has been deposited as a result of timber harvesting. Blockages of this sort have cost the area more than 1000 miles of streams which were once usable by salmon and steelhead.

The Mendocino Fisheries Improvement Program grew out of three sets of circumstances. First, county officials, concerned about the decline of the fishing industry, were using CETA PSE funds to support four employees at local fish-rearing ponds. Second, CEMR, an operator of CETA programs since 1975, was operating a joint reforestation, trail construction, and woodwaste-utilization training program for PSE participants. Finally, the director of this PSE program was an ardent salmon and steelhead fisherman.

In the winter of 1978, the CEMR PSE program was looking for new projects. At the suggestion of one of the county's four large timber companies, CEMR undertook a stream clearance effort on the company's property. The implications of such a project quickly became clear to the dedicated fisherman running the project, and he persuaded the county to combine part of its state CETA grant with CEMR funds for a broader stream clearance effort.

At that time, stream restoration was more a concept than a common practice. CEMR forged ahead, however; working with the regional office of the California Department of Fish and Game, it selected two coastal watershed systems as initial project sites. The streams selected for the early efforts lay entirely within the holdings of large timber companies, since project staff realized that coordinating their work with a large number of small landowners would have been difficult. The director already had a working relationship with the Masonite Corporation, so the twenty trainees, using only their backs and hand tools, began work on that corporation's property.

In 1979, the project was expanded to four crews and nearly one hundred workers on receipt of a YCCIP grant from the state CETA office and of additional local PSE funds. Though most of the labor was still performed manually for reasons of ecological protection, use of hand-operated winching equipment had been allowed by the Fish and Game staff.

CEMR was also working on the political front to secure further support for its stream restoration efforts. The county received an award from the National Association of Counties for its involvement in the project. A sympathetic politician was elected to the State Legislature, where he helped initiate SB 201, a state law acknowledging the value of salmon and steelhead resources and instituting the Renewable Resources Investment Fund, which was capitalized in the fall of 1980. In 1980, SB 201 funds, administered by the Department of Fish and Game and funneled through the county, replaced state CETA funds for support of the stream clearance project.

At that time, CEMR also began developing a related project centered on utilization of the redwood stumps and other timber debris removed from the streams. Hoping to increase the productivity of the clearance and salvage efforts, CEMR received permission to use more mechanized equipment. CEMR also received CETA Title VII funds to assess the market for redwood products and to train operators of small, private firms both for salvaging redwood and manufacturing redwood products. CEMR even leased a small sawmill facility and spun it off for private operation by a partnership of five former trainees and one supervisor in April 1981. The partnership used personal financing to take over the operation, and CEMR provided management assistance.

Today, supported entirely by Fish and Game funds, CEMR is operating three mechanized crews of five persons each in its stream clearance project. The crews are now working on lands held by all four of the major timber companies in the county. CEMR staff have been called on by the companies for advice on including stream clearance components in corporate harvesting plans. The Department of Fish and Game has asked CEMR to study methods for counting salmon populations and to develop a training program based on those methods. CEMR has other ideas as well: spreading the restoration model to five other counties with endangered fish populations, constructing "fishways" to spawning areas, and creating political support for a tax incentive which would allow the timber corporations to write off stream restoration expenses.

Assessment

CEMR's Fisheries Improvement Program has consciously tried to create a middle ground between the county's rigid preservationists and its corporate timber interests: a middle ground called "resource restoration." This concept involves maximizing the productivity of forest lands and streams through careful, multiple-use management and through repairing damages wrought in the past by careless harvesting practices. It calls for careful coordination between the public and private sectors, and it involves the farsighted goal of creating jobs that are no longer tied to the harvesting of declining resources.

CEMR's careful pursuit of this middle ground has involved cultivation of contacts with the private sector and detailed calculations of the public and private profitability of an increasingly productive effort. Credibility with the four local timber companies and with the Department of Fish and Game took time and patience to build. To convince government officials and legislators of the financial feasibility of stream clearance operations, CEMR has calculated how taxpayer investments in stream clearance can be repaid through revenues generated by the sale of redwood, the expansion of the fishing industry, and the employment of previously unemployed workers.

It should be pointed out that part of CEMR's success in persuading both public and private actors of the advisability of stream restoration rests with the widespread local interest in sport-fishing. The Masonite forester, the Fish and Game official, and the CEMR crew member all want a healthy steelhead and salmon population for purely personal reasons. This interest has cut across many lines of potential conflict.

CEMR's notion of job creation has changed over its history. At first, it believed that jobs for graduates of its reforestation and stream clearance projects should be found with private companies. It discovered, however, that many of the large timber companies were not interested in diversifying their activities to include stream clearance. CEMR thus began its two-pronged effort to develop a permanent source of public support and to spin off small contracting and manufacturing businesses. The latter strategy has been hampered because of insufficient technical and financial assistance for the spin-off firms.

Also notable in CEMR's approach is its constant reassessment of project activities and technologies in order to meet more closely the needs of the timber companies, the Department of Fish and Game, and the public at large. The idea for stream restoration, for example, followed CEMR's discovery that the market for woodwaste products was easily saturated and that woodwaste reclamation did not elicit strong support from the major corporations. The addition of a redwood salvaging and manufacturing component followed the discovery that there were significant amounts of redwood to be reclaimed from the streams. And the project's technology has completely shifted from the initial emphasis on hand tools to the use of powerful boom-trucks and power winches -- but only after the power tools were certified as environmentally safe.

CEMR's accomplishments are substantial: It has created the demand for stream clearance, prodded and elicited a permanent funding source for the activity, legitimized the activity on major private and public fronts, and developed a corps of trained workers and a system for training more of them. A good showing, we believe, for a three-year effort.

Northern California Higher Education Council

Background

The Northern California Higher Education Council is a consortium of institutions in northern California -- six community colleges, California State University at Chico, and the University of California at Davis. Formed in 1972, its function is to coordinate and broadcast the educational resources of this rural region, primarily through program planning and curriculum development.

In the fall of 1977, the Council received a grant from the state CETA office to determine how community colleges could best contribute to the economic development of rural communities. The activities sparked by this two-and-a-half year project are the subject of this section.

Economic Development Activities

The Council's rural economic development activities are best discussed in a four-phase framework.

Phase I. In 1977 and 1978, four of the member community colleges held conferences to increase public awareness of rural development issues, to stimulate identification of specific development opportunities for communities, and to ensure the commitment of the colleges to leadership of specific projects. Before the conferences, faculty and students from CSU-Chico had surveyed local attitudes, conducted studies of specific local issues, and prepared case studies for discussion at each conference. At Feather River College in Plumas County, for example, the case studies involved such matters as a specific violation of the California Forest Practices Act, the quality of water services in one town, and lot-splitting or "4 X 4ing." At the College of the Siskiyous, discussion focused on the expansion of ski facilities, mobile home development, and the diversion of a river for agricultural use. At Lassen Community College, the topic was the geothermal potential of the area. Council staff felt that the conferences were successful in increasing public awareness about the existence of real choices, necessary trade-offs, and the power that local people can have in deciding which types of economic development to pursue.

After the conferences, a coordinator at each college worked with a local advisory committee to identify ideas for economic ventures consistent with the criteria established at the conferences. Students from CSU-Chico collected data for the OEDP Committees of four counties and prepared a computerized data base of economic indicators for the entire twelve counties in the Council's domain. But no specific ideas for projects that could be implemented at each college and replicated at others captured the fancy of the advisory committees or the commitment of the college administrations.

Phase II. Very little happened in the project's second phase. The Council considered working further with the county OEDP Committees and training local planners to use the data base that the CSU-Chico students had prepared. Two special workshops were held for local officials on water and sewer facilities, and the colleges were asked to host the SCORE program, so that its volunteers would be more accessible to local businesses. The general lack of action and the passage of Proposition 13, which diminished the colleges' interest in developing new programs and in enlarging their community service mission, prompted the development of a new strategy for the third phase of the project.

Phase III. The new strategy involved transferring responsibility for the project at each campus from a local coordinator to the Dean of Instruction. Rather than trying to generate an economic development project involving diverse elements and resources of the community, the Deans were instructed to initiate tangible, vocationally oriented projects. Thus arose the Lassen College Forest Resource Center, the Yuba College Small Farm Project, the Housing Rehabilitation and Training Program at the College of the Siskiyous, and a Local Development Corporation organized by Feather River College.

The Lassen College Forest Resource Center, much like the two forest improvement projects previously discussed, was designed on the premise that small landowners need to be educated about government incentives for better management of their holdings, that forest contractors needed to be put in touch with both landowners and skilled labor, and that displaced mill workers could be retrained for reforestation work.

The college's forestry department, aided by a consultant, began the project systematically: using maps and NASA aerial photos, students identified and plotted all the small landholdings in the county. This research was followed by a mail survey to establish the needs, attitudes, and characteristics of the landowners and local forest contractors. A curriculum for "forestry technicians" was then developed and tested through a trial training cycle run for CETA participants with state CETA funds. The college also sponsored seminars for landowners and contractors, issued bulletins on reforestation techniques and planting guidelines, and published a directory of sawmills in the region.

The project's planners hoped that further funding would come from the California Worksite Employment and Training Program, which had a $25 million state appropriation for classroom and on-the-job training in labor-short industries. Unfortunately, the college project did not mesh with the rather rigid regulations of the state program. So while the Lassen project continues to operate with CETA funds, its future is far from secured.

At Yuba College, a project was designed to develop the capacity of the college to provide training and marketing advice for small and part-time farmers. Seven short courses were devised (one major need previously identified for reaching small farmers was for short and convenient courses), a resource directory was published, and two demonstrations were conducted. The first involved testing fertilizers and techniques for planting alternative grain crops; the second used an almond orchard as a worksite for upgrading farmers' pruning skills.

A business instructor at Feather River College initiated the conversion of the county's OEDP Committee into a LDC and secured some local PIC funds. The LDC, using consultants from CSU-Chico, investigated several targets for business expansion including a computer-head reprocessing firm and a wood-waste manufacturing firm.

Phase IV. The final phase of the project involves future work under a $244,000, two-year grant from the Kellogg Foundation. The project plans first to disseminate the information and techniques developed through the specific projects at the four colleges; second, to study the feasibility of new ideas for job creation; and third, to perform a brokering function between public and private bodies.

More specifically, the Yuba College small farm project will continue to provide outreach, short courses, demonstration plots, technical assistance, and an equipment bank for small and part-time farmers. At Lassen College, a micro-computer software program with applications for beef production and timber inventories will be developed and tested. The economic research center at CSU-Chico will recruit and train local counselors for service with SCORE in the more remote areas of the region, and Lassen's Forest Resource Center will be duplicated on another campus. A new effort will be launched at the College of the Siskiyous: a five-acre demonstration homestead designed to show how greater economic and environmental self-sufficiency can be obtained through the appropriate application of existing and newly developed technologies. Community access to the homestead will be emphasized.

Several conferences are scheduled for the project's fourth phase: one on alternative technology for farmers, another on marketing strategies for small businesses, a third on the use of the mini-computer in agriculture, forestry, and small businesses. A larger regional conference on economic development and job creation for small communities, involving several state agencies, is also being planned.

A long list of ideas to be developed at individual campuses is also included in plans for the fourth phase. One of the more innovative involves the development of a pack-station management course for twenty students at Feather River College. The training program will be geared to the expanding demand for horseback trips in the Sierras.

Assessment

The rural economic development project of the Council is a sizable and innovative undertaking. Community colleges have not traditionally been involved in promoting economic development, let alone alternative forms of economic development. The project is also marked by considerable diversity, embracing as it does a large number of separate research and demonstration activities. Small farmers, small landholders, small forestry contractors, small housing rehabilitation businesses, and small recreation businesses are being provided with assistance to increase their productivity and to create new jobs.

Much has been learned during the project's first two-and-one-half years. The project director concedes that the goals of the first phases were both too diffuse and too ambitious. Though the conferences expanded the level of awareness among community residents about the problems and opportunities in local economic development and provided an opportunity for the warring environmental and developmental interests to locate some common ground, the local advisory committees proved incapable of moving from the conference stage to the formulation of specific local projects. "Committees cannot fill an entrepreneurial function," the project director concluded. He believes that the public needs to be involved in developing guidelines for development, but he is also convinced that a stronger effort over a longer period of time will be required. The original project model, for example, involved an investigation of geothermal resource applications by the colleges and a dissemination of research results to potential investors in the community. The process, however, simply did not work. It seems that community groups could not build and maintain an interest in pursuing and investing in a new type of development; such actions come only from determined individuals. Thus the pack-station management course finally materialized at Feather River College because of the interest and entrepreneurial bent of a single faculty member.

And while the community advisory groups were unable to stimulate economic development, the colleges themselves, for the most part, proved rather tepid in their pursuit of an active role in economic development, particularly after Proposition 13. In fact, two of the region's six colleges did not participate in the project at all.

According to the director, the project's most successful venture was the Forest Resource Center at Lassen. That effort is small but complete; it involves three discrete and easily identifiable client groups; and it uses a modular, competency-based curriculum developed by the faculty. It met the college's notion of what learning is all about, and it had definable goals. Its results, however, did not match up with the precepts of its designers. Trainees, rather than securing jobs with small contractors working for small landholders, went to work instead for the large timber companies.

In sum, this project has tried several approaches to obtain deeper involvement of the area's colleges in local economic development. In large part, the attempt to use the colleges as a locus for a broad, community service-based effort was not successful. Development of more narrowly based vocational offerings that combined accepted approaches to learning with expanded outreach efforts and more flexible offerings proved more successful.

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KENTUCKY

I. INTRODUCTION

Overview

Kentucky covers nearly 40 thousand square miles and has a population of 3.5 million people. It is a relatively poor state, ranking 40th in the United States in per capita personal income. Its ranking has improved somewhat since 1965, when Kentucky ranked 46th. The largest source of personal income is manufacturing (26.3%), followed by government (15.9%), wholesale and retail trade (15.1%), and services (13.2%). Only 3.7% of personal income comes from farming.

Kentucky is divided into 120 counties. Its large rural population (47.7% in 1970) wields significant political power. The state is also organized into 15 Area Development Districts (ADDs). The ADDs provide multi-county planning services for state and federal programs and technical assistance to local governments in a wide range of program areas, including community development. In the past, ADDs had substantial funding and staffing levels; recently, however, both state and federal funds have been cut, and further reductions are anticipated in the near future.

Kentucky has a number of agencies and organizations which touch on economic development. During the past year, Governor Brown's administration has taken steps to coordinate state development activity by creating a Development Cabinet which includes the major departments with economic development-related programs (Commerce and Community and Regional Development).

Although there is no overall policy governing these departments, Kentucky does have specific programs intended to promote economic development. For example, the Kentucky Development Finance Authority (KDFA) was established 23 years ago to promote economic development through business expansion. It provides industrial revenue bonds, revenue bond guarantees, and direct loans to manufacturing, agricultural, and tourism projects. Funds for KDFA come from legislative appropriations of general tax revenues and through borrowing from state employee pension funds.

The state is also served by the customary small and minority business development programs operated by state and federal government (e.g., SBA programs). The Center for Business Development works with state agencies, federal agencies, communities, and small businesses to provide business development services which include an EDA-sponsored management assistance program, technical assistance to firms damaged by competition from imports, and assistance to firms which are entering or expanding their role in international trade. The state also offers the conventional array of employment and training programs.

It is too early to tell at this point whether the Development Cabinet will establish general policies for coordinating these various resources or whether the programs will continue to be administered rather independently in the future.

In addition to statewide development programs, other programs have emerged which focus on particular geographic areas of the state -- primarily on Eastern Kentucky. Unemployment rates in that area are consistently above the state and national rates, average per capita income is less than half the national figure, and development efforts are thwarted by mountainous terrain and isolated settlement patterns.

Several federal and state agencies have addressed the region's economic woes. The Appalachian Regional Commission (ARC), for example, has funded a wide range of programs in Eastern Kentucky over the years. The state is also discussing the development of a private investment corporation specifically for Eastern Kentucky.

Local efforts have also been made in Eastern Kentucky. For example, Kentucky Highlands Investment Corporation serves 9 southeastern counties by offering financial help to new and young manufacturing companies. It provides both debt and equity capital to qualifying firms and maintains a minority stock ownership position in the firms. It also owns 91 percent of Mountain Ventures, Inc., a for-profit investment company for new or expanding manufacturing companies in 49 counties of Appalachian Kentucky.

State Rural Policy

Kentucky has no apparent policy governing rural affairs and no explicit policy relating to growth and economic development at large. The state has a clear policy for promoting new jobs through industrial recruitment, but that policy does not include specific objectives relating to the geographic location of those jobs.

This absence of a concerted state development policy was admitted in a recent state application for FmHA funds, which stated in part: "At the present time, there is no effective structure within state government to coordinate community and economic development with human and natural resources planning." The application, which was for funds to be used in developing a balanced growth policy for the state, added that, in 1979, almost 6 billion dollars in federal aid had been spent without benefit of being matched against a set of statewide goals or objectives. The proposed balanced growth policy would concern itself with "state-federal investment strategies for the 1980s."

A balanced growth policy for Kentucky is still in the proposal stage. Though no details have emerged, the policy would include means for encouraging economic development of small- and medium-sized cities as well as urban areas. But while the proposed policy would offer mechanisms for coordinating local, state, and federal funds (particularly those that would be available under block grants), it is not yet clear whether the policy will become a reality, and, if so, whether it will play a significant role in state decisions in the coming years.

Programs Studied

Two projects representative of the types of economic development activity under way in Kentucky have been chosen for in-depth study. The first, the Community Development Block Grants (CDBG) Small Cities Demonstration Program, represents state-level efforts to involve local government in the design and selection of local economic development-related projects which are funded through HUD block grants. The approach being tested may be expanded to encompass a wider range of resources as the federal government moves more to the block grant approach. The CDBG demonstration also provides an interesting model for other rural states which are planning to involve local areas in the state and federal decision-making process.

The second project, Mountain Association for Community Economic Development (MACED), is an umbrella for a range of targeted development efforts taking place in Eastern Kentucky. MACED's activities, all of which are specifically designed to promote economic development which will benefit the economically disadvantaged, include technical assistance and financing for venture development, multi-family housing development, and assistance to community organizations in designing and implementing development programs. MACED also administers the KDFA loan program for Eastern Kentucky.

MACED offers a model for other local development groups of an evolving and multifaceted approach to rural economic development. The Association has its own agenda and resources, yet it works with and taps state resources whenever possible. MACED's expertise is well recognized by the state. Plans are being made to involve MACED staff in the review and provision of technical assistance to economic development projects generated under the CDBG demonstration, and MACED has been involved in state government discussion of a private investment corporation for Eastern Kentucky.

II. RURAL DEVELOPMENT PROGRAMS AND INSTITUTIONS

Kentucky CDBG Small Cities Demonstration Program

General Description

In FY '81, Kentucky and Wisconsin were selected by HUD to host a demonstration of how states can assume greater responsibility in the administration of federal housing and community development programs. Kentucky was permitted to design its own process and criteria for selecting cities and counties with less than 50,000 population for HUD block grants. The demonstration thus enabled the state to substitute its own review criteria and state and local decision-makers for federal criteria and review procedures; the state assumed administrative responsibility for the program, rather than serving only as a liaison between federal and local governments.

The state's role will be expanded even further in the second year of the demonstration to include financial management and monitoring of all CDBGs. Kentucky has accepted the challenge and developed a process based on the philosophy that it is a legitimate role of the state to support local community development efforts. The program relied heavily on local governments for the development of its overall approach, as staff consulted with over 300 municipalities and 120 counties in the selection of criteria for the review process. The resulting criteria are intended to allow greater flexibility in applying federal resources to local problems.

During the past year, Kentucky has been putting its CDBG demonstration program into the field. The demonstration is providing valuable process experience in preparation for the expected expansion of the block grant approach. The demonstration promotes the local development of quality projects directed toward the primary objective of the Housing and Community Development Act -- the development of viable communities through the provision of decent housing, a suitable living environment, and expanded economic opportunities, especially for low- and moderate-income residents.

This report focuses first on administration, and second on the criteria used in the selection of development projects. Program administration involved local governments in every step -- in the formulation of criteria, the provision of technical assistance, the selection of proposal review teams, and the evaluation of the process. Efforts taken to develop consensus among local government officials on the criteria and procedures are seen as the key to the success of the demonstration, and variations of this approach could be applied in other rural states. The discussion of Kentucky's initial failure to develop quality economic development proposals and its subsequent revision of program criteria should also be useful to other states attempting to focus their resources on economic development projects.

Program Administration

Program design and implementation involved five major steps: (1) selection of staff and advisory committees to direct the program and to develop the selection process; (2) provision of technical assistance to potential project applicants; (3) establishment of proposal rating teams, and the review and selection of proposed projects; (4) evaluation of the review criteria and process; and (5) revision of the review process and criteria. These steps are described below.

Overall program administration was assigned to the Department of Community and Regional Development (DCRD). Two committees -- one for policy and one for technical matters -- were formed to design selection criteria for CDBG projects. The Technical Review Committee was made up of six ADD representatives and six directors of local development agencies. It worked with program staff to design criteria, which were then submitted to the Policy Advisory Committee for review. The Policy Advisory Committee consisted of representatives of the Kentucky Association of Counties, the Kentucky Municipal League, the Kentucky Council of Area Development Districts, the Kentucky Community Development Association, the Department of Community and

Regional Development, and individual ADDs. The Policy Committee reviewed the draft criteria and distributed them throughout the state to all mayors and county judges for comment. In October of 1980, the Policy Advisory Committee met again to review the criteria and give its final approval of them. HUD then approved the criteria for the small cities CDBG demonstration.

Next, project staff and HUD staff held four regional training sessions around the state for small cities and rural counties which might become project applicants. (These assistance teams gave technical help on project design to one-third of all pre-applicants for the project.) Then a number of rating teams, each made up of a HUD staffer, a community developer from an ADD, and a DCRD staff member were formed by DCRD. A separate team was established to review each type of application -- comprehensive, housing, public facilities, and economic development. The teams ranked the pre-applications in February; DCRD and HUD staff visited application sites in March; and DCRD submitted its funding recommendations to HUD shortly thereafter. Eighteen of the 112 pre-applications were finally selected for funding.

In May, DCRD staff initiated an evaluation of the review process and the selection criteria. They received feedback from community development agency directors, local officials, and community development consultants on the demonstration experience to date. Staff reworked the process with HUD and submitted it to the Technical Review Committee. The revised process was submitted for review and approval by the Policy Advisory Committee in August.

The program evaluation identified four major problem areas: (1) there was too much paperwork; (2) the criteria resulted in the funding of good applications, but not necessarily of good projects; (3) many rehabilitation projects, and no true economic development projects, were funded; and (4) the bonus point system written into the selection process carried too much weight and penalized small towns.

Each of these problems was addressed through specific changes in the procedure. For example, application forms were shortened, several criteria were dropped, and plans were made for validating information during site visits rather than having masses of documentation submitted with each application. Provisions were also made to weight on-site observations more heavily than on-paper allegations; and to allot specific amounts of money for each funding category to encourage applications under every category.

Taken together, the revised procedures will minimize the handicap to applicants which are too small to have the services of professional proposal writers. The materials to be assessed in the applications have been reduced to a checklist format. Ratings of positive, unclear, or negative will be attached to each criterion on the checklist. Applicants which receive a high number of positive ratings will be further evaluated according to their relative need as indicated by such additional factors as per capita income, population lag or decline between 1970 and 1980, percentage of population at or below the poverty level, and unemployment rates. Top-ranking applicants will then be visited, and the site visits will produce a final set of ratings.

Proposals which receive the highest ratings on the basis of the site visits will be recommended for final funding.

Economic Development Projects

In the original demonstration materials, economic development projects were characterized only as projects which "expand employment opportunities and/or existing businesses or which retain employment opportunities or business." The only examples of economic development projects provided to applicants were projects involving "acquisition of real property, site improvements, or employment training centers." No more detailed explanations or examples of model projects were provided. During the first round of proposals, only eight economic development projects were submitted. None was considered strong enough to be selected for funding.

As noted, program staff and the Technical Review Committee made specific changes in the review process to encourage the development of more quality economic development proposals in the future. First, a specific amount of money will be set aside each year for use in funding economic development projects. Second, a revolving review process will be instituted for economic development proposals. Under that process, applications can be submitted at any time, and more time for negotiating improvements in proposals with economic development applicants will be available. Finally, a team of experts (possibly including representatives of MACED and Kentucky Highlands Investment Corporation) will be established to review economic development applications and to advise applicants on means of strengthening their proposals.

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Changes were also made in selection criteria. Increased emphasis will be placed on projects that will produce jobs directly through business expansion as against projects which promise to create jobs indirectly -- e.g., through downtown revitalization. Bases of selection for single-purpose economic development projects will include information and projections on the number and types of jobs that will be created; the commitment of the cooperating business to creating those jobs; and the general economic outlook of the participating employer.

New criteria for certain types of comprehensive projects which include economic development components were also designed. The new criteria favor projects which will provide jobs in the private sector for low-income people, stimulate private capital investment, and maximize the CDBG dollar by recycling it to the grantee through loans, revolving accounts, and leaseback or sale arrangements as opposed to direct grants. Priority will also be given to projects which are designed to provide opportunities for women and for minority businesses which have limited access to capital.

Assessment

Although the revised selection criteria clearly reflect a commitment to the development of job-creating projects in small towns and rural areas, the impact of the new criteria will be lessened by the lack of technical capacity to develop quality projects at the local level. Many small towns have no staff to design projects.

Community development staff of the ADDs have provided proposal-writing assistance in the past, but that assistance will shrink because of significant cuts in ADD funding.

At the same time, DCRD lacks the numbers and the technical capability necessary for delivering effective technical assistance to local groups across the state. DCRD staff have attended workshops on small business development, and they have great hopes for the review committee they plan to establish for economic development projects. But while the individuals being considered for membership on the committee possess the appropriate technical skills, it is unlikely that they will be available to provide extensive assistance to a large number of local applicants.

Finally, program staff have not been effective in providing examples of economic development projects to local applicants. Since economic development is an area in which many local governments have little experience or expertise, staff should concentrate on developing examples of projects which can help local officials design projects appropriate to their areas. In this effort, program staff could present effective examples from other states and also design model projects with the assistance of the Technical Review Committee.

It seems clear that the demonstration has given Kentucky an edge over other states in preparing for a federal shift to a block grant approach. Although it is impossible at this point to assess the quality of the individual projects initiated under the demonstration process, it appears that the process itself is viable. But while the process has demonstrated how a variety of local agencies can work with state and federal officials to design a project selection system, it has not shown how two or more state agencies or two or more federal agencies can work together effectively. The entire question of state-state and federal-federal coordination will require a good deal more consideration before programs of related content, but separate administration, can be fused successfully under a block grant system.

Still, the approach taken by Kentucky can represent at least a beginning model to other rural states. Great care has been taken to involve local officials in the design of the selection process and in the evaluation and revision of that process after its first test. Significant improvements were made to simplify the process, to increase the chances of small towns' being funded, and to promote the development of quality economic development projects. Moreover, the revisions were made quickly and with remarkable efficiency given the number of groups involved in the process.

The major challenge facing the Kentucky demonstration at this point is determining how to ensure quality projects with virtually no technical assistance resources. Unless means are found for assisting localities and state demonstration staff, it is unlikely that the quality of the projects actually funded will come up to the quality of the process under which they are funded.

Mountain Association for Community Economic Development (MACED)

General Description

MACED is a five-year-old, private nonprofit community economic development corporation which serves 85 counties in central Appalachia.

Its target area spans four states (Kentucky, Virginia, Tennessee, and West Virginia), and its corporate headquarters are in Berea, Kentucky. MACED's programmatic activities share the common goal of economic development and fundamental strategy of helping poor people draw on all available resources to improve their economic and political status. To effect its strategy, MACED concentrates its efforts on increasing the rate of new business formation and on providing local leadership with the skills necessary for the promotion of community development.

MACED was the product of discussions among a dozen Appalachian organizations which recognized the need for an organization to provide business development assistance. The Association began with one staff member (Bill Duncan, its current president), with in-kind support from the Kentucky Highlands Investment Corporation. After securing a grant from the Lily Foundation, MACED began providing technical assistance to CDCs for the development of cooperatives and community-owned businesses. The strategy shifted as the Association realized that cooperatives alone were not the answer: New jobs were needed.

MACED is directed by its president and a board of directors made up of representatives of 10 of the Association's constituent organizations. Its staff of 12 is organized into four sections reflecting its major development activities: Small Enterprise Development, Community Development, Housing, and Research and Development. MACED maintains a formal relationship with only one state agency -- the Kentucky Development Finance Authority -- but it works with a wide range of community and state agencies and organizations.

MACED has received funding from state and federal agencies and from private resources. New sources of funding are constantly being explored. For example, MACED received $500,000 in EDA monies to establish a loan fund in late 1980, and it is currently negotiating a CETA grant for services it can provide to Private Industry Councils.

MACED's four major work areas are discussed below.

Small Enterprise Development: MACED brings together ideas for new business ventures, potential entrepreneurs, and technical and financial assistance. Staff members develop leads on new ventures by talking with people in the communities and by publicizing MACED's new ideas. Staffers also research new business ideas and attempt to determine how they can best be brought to fruition. Staff work with individual entrepreneurs -- most of whom have been refused loans by regular lending institutions -- to help them develop firm business plans and to arrange complementary MACED financing. Staff then help the entrepreneur to secure the other needed financial commitments and to establish the venture. MACED staff are convinced that, without their technical assistance, few of the businesses they work with would have much chance for success.

Within its overall small enterprise development strategy, MACED is developing several sub-strategies. These involve industry targeting, marketing, and forest products development. The first two ideas are still in the developmental stage. MACED is planning to research growth industries around the country to determine if the area's resources can be marshaled to attract firms in those industries.

MACED is also exploring the idea of starting a marketing company for Eastern Kentucky products. The company would establish markets for certain goods and then contract with local producers to make those goods.

The forest products development project has proved to be a successful business development model. MACED would like to use a similar approach in other product areas. Under the approach, a staff member becomes a specialist in a particular product market: He identifies business opportunities, performs feasibility analyses, identifies potential entrepreneurs, and brings the business ideas and the entrepreneurs together with financing. Thus far, the wood products project has resulted in three new ventures which employ more than 40 people among them.

Although MACED has only been making direct loans for a year, it has to date made 10 separate investments totaling $171,000 from its own loan fund and the fund it administers for KDFA. MACED always attempts to use its funds to leverage larger loans. The average loan package in which MACED is involved is $100,000, with $20,000 of the total coming directly from MACED. The average recipient enterprise creates 20 jobs.

MACED furnished the following descriptions of two ventures it has assisted:

> Mr. McIntosh was driving a truck, brokering some lumber on the side, and had an ambition to start a hardwood dry kiln business. He had learned about lumber from his father, but did not know how to go about getting into a business like kiln drying, which requires a significant initial capital investment.

He contacted MACED after seeing a news story and, after substantial market research and other business planning guided by MACED staff, he determined that he was not prepared to enter the dry kiln business yet. He did find, however, that a holding yard and brokering operation was feasible. After further planning, a combination of MACED, KDFA, and the Powell County Bank provided $73,000 to finance equipment and initial working capital to get Mr. McIntosh going. He has now begun to purchase lumber from 12 surrounding mills which never before had reliable markets. Mr. McIntosh assembles the lumber in a holding yard and resells it in the volumes required by national markets. In the past, these sawmills have operated on a part-time basis, employing on the average of one to two people on a year-round basis. The steady market provided by Mr. McIntosh will allow them to produce on a regular basis and dependably employ an average of 6 people each, creating 48 new jobs.

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Mr. Smith saw an opportunity to lease a large boundary of timber near his home in Letcher County. He acquired an old sawmill and cut himself a house pattern. He felt that he had some potential in business, but was not sure what to do next. MACED staff helped him to get into production and to establish himself as a supplier of mine timbers in the area. It quickly became clear that, with help, he could expand his business much further. After additional planning, therefore, MACED, KDFA, and the Bank of Whitesburg furnished Mr. Smith $82,000 to purchase a new larger sawmill and open up new markets. Installation of the mill is almost complete and Mr. Smith has two months' worth of logs on the yard waiting for sawing. MACED staff is working with him to establish furniture industry customers for his high-grade material and he now has several enthusiastic bidders. He has hired two trainees under CETA's OJT program and expects to hire five more by the end of the year. Mr. Smith is a good prospect for significant future expansion both in the sawmill business and in other wood products-related enterprises.

Community Development: MACED helps establish new local leadership groups and works to develop organizational skills within existing groups. The groups with which the Association works are centered on issues ranging from water and sewer systems to worker ownership of businesses. MACED tries to instill confidence among members of local groups while teaching them skills which are essential to effective operation (e.g., bookkeeping). Assistance is offered at no cost, though MACED does accept fees when available.

MACED provided the following description of a community development project:

> In Wheelwright, a group has formed to rehabilitate the sewer and water systems, try to reactivate a very popular swimming pool (built when the city was a coal camp), and undertake additional rehabilitation projects in town. During the coming year MACED will be helping them analyze the feasibility of their projects and develop enough organizational strength to do what they plan. The project MACED designed to train housing rehabilitation craftsmen has worked well as technical training, though it has not yet reached the loftier goal of generating an independent contracting enterprise. That still might happen. All in all, the project has begun to draw out the community commitment necessary to undertake new development initiatives in Wheelwright.

Housing: MACED is attempting to formulate housing development strategies which are appropriate to Eastern Kentucky. Major barriers to housing development include the lack of available land, the high cost of developing land in the region, and the shortage of mortgage financing. In response to these problems, MACED has concentrated its efforts on development of multi-family housing projects and on designing means for increasing mortgage availability in the area.

MACED serves as packager and developer for multi-family housing projects. This role enables staff to generate revenue for MACED as well as for a local sponsor. MACED lends the technical expertise required to develop available land without being viewed as an outsider. To date, this new effort has resulted in a plan for a 41-unit complex sponsored by a black church; the plan is currently under review by HUD. Several other projects are in earlier planning phases.

Single-family housing starts in the region are hampered by severe mortgage availability difficulties. MACED is looking into techniques for increasing the amount of money available to individuals who wish to build on family-owned land or individual lots. MACED is recommending ways to use state mortgage revenue bonds in conjunction with block grants and special forms of mortgages to reduce monthly mortgage payments, and it is planning to direct the issuance of a multi-county bond offering in Eastern Kentucky this year. MACED is also working with several state and county banks to have them accept a homeowner's labor in building his own home as a down payment in qualifying for a home mortgage.

Research and Development: MACED staff are constantly examining new ideas which can be applied in the overall area of economic development. Staff members research each likely seeming concept thoroughly and write reports outlining its potential place in MACED's development strategy. Issues that have been explored include the possibilities of the dry kiln business and the creation of new types of mortgage credit.

Staff work in all of the above activities is supported by a small computer. The computer is also used in training for business planning. Economic variables relating to a given business operation can be programmed differently to show an entrepreneur how outside changes can affect his cash flow or production. The computer is also useful in monitoring performance once a business is in operation.

Relationship With The State

Although MACED welcomes the support of the state, it realizes that it must remain independent if it is to achieve its goals for the region. MACED views the state as a source of funds for specific development projects and as a key player in the development of community infrastructure. It believes, however, that the push for enterprise development should come from the affected local areas.

MACED plays a major role in allocating KDFA resources in Eastern Kentucky. Together with the Kentucky Highlands Investment Corporation, MACED reviews applications and makes recommendations about loans to businesses and projects to be made from a $500,000 fund provided to KDFA by ARC.

MACED also supports CETA programs in its area by helping match CETA eligibles to job opportunities. Staff members act as intermediaries between small businesses and CETA program staff. They inform employers of the various advantages available to them if they hire CETA-eligible workers, and they attempt to reduce the confusion associated with dealing with the bureaucracy.

MACED's involvement with the state may increase in the coming months if the state proceeds with plans to create a private development corporation for investing in Eastern Kentucky. MACED has been involved in preliminary discussions about the corporation with the state, but no details on the probable structure of the proposed organization have yet emerged.

Assessment

Assessment of MACED's enterprise development activity is perhaps premature after only one year of operation, but progress during the first year of operation of the loan fund has been impressive. The 10 initial loans (totaling $171,000) will have generated 50 new jobs during the first year of operation, and they are expected to generate 80 jobs by the end of the third year. MACED is seeking an additional $400,000 to add to its original $500,000 loan fund and has set the goal of investing in 10 more enterprises in the coming year. On the basis of the first year's investments, it seems clear that entrepreneurs are available; they do, however, need considerable technical assistance and increased access to investment funds which can serve as leverage for larger bank loans.

MACED was unsure of the probable effects of dwindling federal resources on its programs. Funding for staff appears secure, but funding for community development and housing projects sponsored by the agency will clearly suffer. MACED's philosophy of incorporating as program components "anything that works" to promote economic development should certainly help to minimize the negative effects of budget cuts.

Staff itself is seen as the key to successful local development efforts. MACED tries to identify staff members who have the capacity for developing the trusting relationships with individuals which are necessary for the effective delivery of technical assistance. If an individual possesses strong communication skills, MACED believes it can provide the needed technical skills through training. This approach enables MACED to hire local people who are committed to the area. MACED also pays salaries which are competitive for the area, particularly for community development work.

A second important factor affecting corporate success is the positioning of the organization in relationship to other local groups. MACED provides skills, but it is careful not to appear to be seeking power within the community, preferring to act in support of other community development groups rather than unilaterally.

MACED believes that the impetus toward development must come from within the area to be developed. A multi-county approach is probably necessary to build the influence needed to attract and tie into outside resources. Still, an 85-county area seems a bit ambitious, especially in light of MACED's staff resources and the natural geographic barriers within the area. MACED has followed its basic philosophy successfully to date by developing local staff talent to tap the area's natural and human potential. MACED staff believe that low-income residents do not benefit fully from economic development unless the residents are part of making it happen themselves. MACED is providing the skills, the tools, and the financing that local people need to start businesses, build houses, and undertake a multitude of other community development projects. This broad approach creates visibility for the organization within the community and helps develop local confidence that development efforts can succeed.

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VERMONT

I. INTRODUCTION

Overview

Vermont is a small, rural, and relatively poor state. Its total population is 500,000, and it was only at the 1980 Census that one area had become densely enough populated to be considered a Standard Metropolitan Statistical Area. The population lives in some 257 cities and towns; 240 of those have fewer than 5,000 people; and 57% of the state's people live in those towns of less than 5,000 population.

While the largest metropolitan area, Burlington, has a rapidly expanding economy (along with a few other cities), the more rural areas tend to be economically depressed. The most depressed area is the Northeast Kingdom, three counties that border Canada and New Hampshire, where the unemployment rate is consistently two to three percentage points above the state average and average per capital income was $3,236 in 1977 (compared to $3,963 statewide).

Falling between the extremes of Burlington and the Northeast Kingdom, many areas of Vermont have experienced moderate economic growth in the past fifteen years. The machine tool industry is healthy and growing, and tourism has continued to be one of the biggest industries in the state, accounting for 15% of the gross state product. It was partly because of the proliferation of ski resorts and second-home communities and the economy's resultant dependence on low-paying, seasonal jobs that the current Governor vowed to bring more manufacturing jobs to the state. He has been successful in that effort: in the 1960s and early '70s, the service sector was the fastest growing employment category in Vermont, but manufacturing has now taken over that lead.

It was also in response to the rapid development of resorts and second-home communities that Vermont enacted strong environmental legislation in the 1970s. This legislation, called Act 250, required local commissions to review plans for all but the smallest developments -- residential, industrial, or commercial. Environmental protection has been supported by a coalition of native Vermonters and a large number of recent in-migrants (vacation homeowners, back-to-the-landers, and workers who were brought in by expanding industry). One person described the supporters' attitude: "Vermont is in many ways a difficult place to live, with low wages, long winters, and a high cost of living. Yet we live here by choice. The trade-off is the natural beauty of the state, and we're determined to preserve that beauty."

The preservation theme emerges also when one looks at agriculture in Vermont. One hundred years ago Vermont, along with most of New England, was 80% farmland; today, the state is 80% forested, and even the prime agricultural land in the Connecticut River Valley is not being farmed to its full potential. The only agricultural activity of any magnitude is dairy farming, which has survived only because of federal price supports. In the past few years, though, New England has begun to experience pressure to grow more food locally, partly because of the increased cost of transportation. The region has also experienced increased pressure for better management and utilization of its forest resources. In Vermont these movements have caused clashes between preservationists and industrial development proponents, especially over the issue of building manufacturing plants on prime farmland. The state pays lip service to the traditional description of its economy as resting on a three-legged stool -- manufacturing, tourism, and agriculture -- but today agriculture receives far less than a third of the state's attention and resources.

Government Structure

At the state level, Vermont has several agencies that are concerned with economic development. The Development and Community Affairs Agency includes an industrial development division and a travel and tourism division, and it also coordinates a state-funded job training program. The Department of Employment and Training houses CETA and the Job Service, both of which try to coordinate with economic development efforts. The Agriculture Department, traditionally a regulatory agency, was recently expanded to include a development division charged with diversifying Vermont's agriculture base. Finally, the State Planning Office is the agency that keeps the Governor informed on the condition of the economy and prepares policy documents and plans for him. The Planning Office has been funded by federal grants (FmHA, New England Regional Commission, and others), and at its peak had ten professional staff members. Recently, with the loss of federal money, the staff was cut in half, and the office is pursuing a more limited role.

Industrial development is assisted by the Vermont Industrial Development Authority (VIDA), which offers, in addition to standard mortgage guarantees and industrial revenue bond financing, subsidized direct loans at 4% interest for up to 40% of the cost of land, buildings, and machinery for any manufacturing company building or expanding in Vermont. Since this inducement was made available in 1974, approximately 100 companies have taken advantage of it, and the state has appropriated $9 million to fund the program.

There is also a network of local development corporations and industrial parks which helps encourage industrial development. At least 30 towns have industrial parks (of which about half were financed with help from EDA or FmHA), and the state helps LDCs market space to new and expanding industries. The state also funds staff positions in eight LDCs enabling the LDCs to package VIDA loans, recruit new industry, and help local industries expand more effectively.

Local government in Vermont is strictly town government. Counties have virtually no political or administrative functions, and a network of regional planning commissions has evolved to fill that vacuum. These commissions act as a bridge between state and local government, relaying information on local needs to state agencies; they also provide technical assistance to their member-towns in matters such as planning, zoning, and proposal preparation. The state appropriates $500,000 annually for operation of the 12 regional planning commissions -- a larger per capita appropriation than any other state.

State Rural Policy

Although Vermont has no formal state rural policy, it does have a well-developed economic development policy; and since virtually the entire state is rural, the latter policy serves also, in effect, as the former.

The basic economic development policy document was developed by the State Planning Office in conjunction with other state agencies, and it underwent a lengthy citizen review process before it was made final and approved by the Governor in 1979. The policy was developed at least in part because the Governor wanted a single, tangible document setting out the state's direction in economic development. He wanted to be able to hold state agencies accountable for following an agreed-upon set of strategies, and the policy has been used for that purpose according to Planning Office officials, In fact, a year after the policy was adopted, the Planning Office polled state agencies to assess the status of each strategy recommended in the policy, and it found that many of the strategies were indeed being implemented.

The issues highlighted in the development policy are environmental preservation, revitalization of town centers, and the ways in which economic development resources should be allocated within the state. On the latter issue, the policy advocates maintaining the dispersed settlement patterns of the state (i.e., maintaining numerous, small economic centers), giving attention to the varying needs of each region, and concentrating state aid in places where unemployment is worst and incomes are lowest. After a treatment of these core issues, the policy document presents a lengthy compilation of strategies which fall into eleven areas ranging from assisting manufacturing firms to assisting agriculture, from job training to development of energy resources.

The policy document, however, fails to set priorities among economic development goals. While the policy appears to give equal weight to developing manufacturing, tourism, and agriculture, the Governor clearly wanted top priority placed on increasing manufacturing industry in Vermont. Because the policy does not deal with the inevitable conflicts between, for example, environmentalists and developers, it is not so useful to the state as it might be in guiding development, allocating resources, or justifying controversial actions.

The development of the policy does seem to have been a useful exercise, however, because it forced each state agency to think about how its activities influence economic development. The policy has also been useful in forcing the state to catalog all its economic development activities, thus making it possible to track progress in each activity. The 1979 policy document listed more than 50 "program directions" and even more recommendations for action, and in 1980 the Planning Office was able to check on the status of each one. All of the state programs discussed below -- Job Start, aid to RDCs, and Act 250 -- are included in the policy, but none was initiated as a result of the policy.

Programs Studied

This report discusses four state and local programs embodying different approaches to economic development. The programs are:

> Vermont Job Start -- a revolving loan fund operated by the state Economic Opportunity Office which lends money to low-income owner-operators of small businesses.
>
> State Support for RDCs -- grants to regional development corporations to enable them to hire staff, and technical support for RDCs.
>
> Act 250 -- the state's program for guiding and controlling development.
>
> Northeastern Vermont Development Association -- a RDC and regional planning commission in the Northeast Kingdom that owns industrial parks and manages revolving loan funds for business development.

Job Start and the RDC assistance program are examined because both are supported by state appropriations and because they represent quite different approaches to economic development -- microbusiness development vs. more traditional industrial development. Act 250 is touched on because of its importance in the state's overall economic development picture and because of its unique administrative arrangements. Northeastern Vermont Development Association's experiences shows what a local development corporation can achieve in a remote, economically depressed region. Its approach is compared to that of another successful organization operating in the same region -- Northern Community Investment Corporation, a federally funded community development corporation that assists housing and finances business start-ups.

II. RURAL DEVELOPMENT PROGRAMS AND INSTITUTIONS

Vermont Job Start

General Description

Job Start is a small business development program operated by the State Economic Opportunity Office (SEOO) with assistance from local community action agencies. As part of the state's anti-poverty program, Job Start's emphasis is on helping individuals raise themselves out of poverty, and it does this by making small, low-interest loans to low-income people to start or expand owner-operated businesses. The goal is to help people earn a decent income through self-employment and, where possible, to create new jobs in small businesses. A wide range of businesses have been assisted, from agriculture-related ventures (e.g., beekeeping, logging) to cottage industry manufacturing (clockmaking, quilts, furniture) to services (hairdressing, appliance repair) and small retail businesses.

The statewide Job Start program originated in 1977 with a state appropriation of $400,000 -- $367,500 to capitalize a revolving loan fund, and the remainder for program administraiton. The designated administering agency was the State Economic Opportunity Office, which operates within the state's human services agency and is funded both by the state and by the federal Community Services Administration. The program was modeled after a pilot program run by a community action agency in Vermont's Northeast Kingdom. Inspired by the success of that regional program, a number of low-income advocacy groups and church groups lobbied successfully for a statewide Job Start program.

After the initial appropration, the legislature has acted twice more on the Job Start program, first releasing $15,000 from the revolving fund to be used for administration, and then in 1980 appropriating an additional $125,000 for the revolving loan fund. In 1981, additional appropriations were requested and refused because of the state's tightening fiscal situation. (The year the program was first funded, Vermont had a substantial budget surplus -- a condition which has not occurred since.) Additional administrative funds have come from New England Regional Commission grants and from interest and delinquency fees collected from borrowers. The total administrative budget has been on the order of $25,000-$30,000 per year. All principal payments, which currently average $90,000 a year, are returned to the revolving fund.

Because of the limited administrative budget, staffing for Job Start has been kept to a minimum -- a coordinator and a part-time secretary/bookkeeper. From the beginning, it was hoped that the program would become self-supporting quickly, with interest and delinquency fees supporting the staff. Consequently, certain limitations have been imposed on the program. Job Start seeks borrowers who have the potential for succeeding in business without heavy support or technical assistance, since staff realize they cannot spend much time helping an individual borrower.

The coordinator who managed the program until recently was the same person who ran the Northeast Kingdom's local predecessor to the statewide program, and he was extremely dedicated to the program's success. As he describes it: "I treated the money as if it were my own; I traveled all over the state to make collections on delinquent accounts, and wouldn't leave a person alone until we had worked out a payment schedule." As a result, losses have been kept to between 5% and 8%, which is low considering that all borrowers must have first been rejected by conventional credit sources.

Another reason for the low loss rate, staff note, is that the loans are so small and payments so low that most borrowers can somehow manage repayment, even if business is not prospering. (The maximum loan amount is $5,000, the maximum term is 5 years, and the current rate is 8½%.)

Job Start does not target its loans particularly to rural or depressed areas, but because loans are dispersed fairly evenly across the state, a high proportion of the loans are made in rural areas. One community action agency staff person remarked that microbusiness (their term for very small owner-operated businesses) and cottage industry development is an economic development approach particularly well-suited to rural areas, since those areas offer few other job opportunities, and self-employment is a way to avoid traveling 30 or 40 miles to a factory job in town. Many borrowers place a high value on being self-employed; a typical borrower's goal is to earn $200 a week and be his or her own boss.

Job Start lends its money to relatively high-risk businesses: all recipients are small businesses, and many owner-operators are unsophisticated in the business world; all recipients have been rejected by conventional lenders, and all have incomes below $12,000. Job Start does not necessarily look for the most profitable venture or the "best" deals; rather, the program seems to lend to anyone who meets its low-income guidelines and is a reasonable credit risk (on the basis of credit references and the feasibility of the business plan.) In its two years of operation, Job Start has received approximately 290 applications and has made 178 loans -- a 60% approval rate.

Loans can be used both as working capital and for purchase of fixed assets, and for start-up of new businesses as well as for expansion of existing businesses. Examples of assistance to business start-ups include: a loan to two women to open a beauty shop which now employs three people; a loan to a music instructor to enable him to rent a studio; and a loan to a man on public assistance to help set up a mobile home repair service. Loans for assisting existing businesses have included a loan to a blacksmith to enable him to hire an apprentice, a loan to a glassworker to remodel her shop and hire an assistant, and a loan to a logging team to purchase equipment to improve the efficiency and profitability of its operation. As these examples suggest, borrowers range from native Vermonters from low-income families (who most often seek to start businesses like logging, auto repair, or beauty shops) to newcomers, often well educated, who moved to Vermont seeking an alternative life-style. The latter are responsible for a large number of craft-oriented businesses that Job Start has assisted -- glassblowers, puppeteers, quilt makers, handweavers, potters, etc.

Program Administraton

Although the State Economic Opportunity Office is ultimately responsible for the program, loan applications are reviewed by local boards appointed by Vermont's five community action agencies. Prospective borrowers (most referred by community action agencies, some by banks) send applications to the SEOO. The Job Start coordinator reviews applications, asks for additional information if needed (e.g., marketing plans or cash flow projections, depending on the nature of the business), and helps those who qualify to develop a presentation for the local review board.

Each local review board consists of a banker, two business people, and two low-income representatives. Job Start staff find the review boards quite helpful because of their expertise in loan review and business planning. Also, board members often develop personal relationships with borrowers and offer them business advice. Finally, the local boards are helpful because they take some of the loan review burden off the small state staff and ensure local support for the program.

Unlike most small business development programs, Job Start does not offer much technical assistance to its borrowers. The reason for this, as noted above, is the small staff. SCORE volunteers have been helpful, especially in the cities, and the Vermont Council on the Arts has helped many of Job Start's craftspeople with marketing, but more assistance could be used. Staff have had some success linking borrowers with each other and with local board members for help, but, to make this system more effective, Job Start would need a staff person to coordinate volunteers.

Assessment

In its first two years of operation, Vermont Job Start made 178 loans totaling $425,000. All borrowers had annual household incomes of less than $12,000, and one-third fell within federal poverty guidelines. As of June 1980, Job Start loans had helped create 98 jobs and had sustained an additional 111 (these figures include both full-time and part-time jobs). The program has helped business owners who could not otherwise have started, maintained, or expanded their businesses, and it has experienced a fairly low loss rate of between 5 and 8 percent.

In the short run, Job Start's future is fairly secure, but its level of activity will decline without a new injection of capital. Staff estimate that the loan fund would have to be capitalized at $1 million (twice its present level) in order to make the program completely self-sustaining. The chances of this happening are slim. Job Start's application to the National Rural Development Loan Fund was rejected, and it appears that the state's tight budget situation will only worsen as federal cutbacks continue. In fact, except for the state's budget surplus of 1977, Job Start probably would not have been funded at all.

Even if Job Start were funded at $1 million, it would have difficulty becoming truly self-sustaining as it currently operates. By lending money at eight-and-one-half percent -- below the inflation rate -- and using all interest and delinquency payments to fund administration, the revolving fund's real value inevitably will decline over the years. The program is already beginning to feel the effects of this problem -- now that all of the initial capital has been disbursed, Job Start is limited to writing $90,000 a year in new loans -- the amount of principal repaid annually.

In analyzing Job Start, four program-design issues emerge: what interest rate should the program charge; how selective should it be in choosing borrowers; how high should the loan ceiling be; and, should the program offer technical assistance. Some observers have recommended that Job Start raise its interest rate to a level closer to the inflation rate in order to maintain the real value of the fund. They argue that the problem confronting small businesses is availability of capital, not cost of capital, and that any viable business can afford to pay interest equal to the inflation rate.

Job Start has never been extremely selective in choosing borrowers. In contrast to private investors, who are always looking for a better deal, Job Start lends to anyone who meets eligibility criteria and appears to be a reasonable credit risk. This approach has benefits for a public program. Because the program is not advertised widely and 60 percent of all applications are approved, community action agencies know that people they refer will have a good chance of being funded. This ensures CAA support for the program. Furthermore, staff time is not wasted reviewing and rejecting hundreds of applications, and the program can make a large number of loans quickly. On the other hand, if the program operated more like a traditional finance institution by seeking businesses with the best likelihood of success, it might fund more successful businesses and leverage more traditional financing.

To date, Job Start loans have leveraged little bank money, both because of the characteristics of the ventures Job Start funds and the size of its loans. Banks are reluctant to write business loans for amounts as small as $5,000-$10,000, and Job Start loans in the $2,500 to $5,000 range do little to help leverage larger bank loans. If Job Start had a capital fund of $1 million, program staff would advocate raising the loan limit to $10,000; with current funding of $500,000, however, they prefer keeping the loan ceiling low to spread the money among more businesses.

Finally, a technical assistance component would help the program, although Job Start has done remarkably well without one. Job Start staff and observers agree that if the program could afford to provide technical assistance, it could help more of its recipient businesses become more successful.

Job Start's success contradicts much of the conventional wisdom about small business assistance programs. The program makes small loans to unsophisticated, high-risk businesses, and it offers virtually no technical assistance, yet it has achieved a low loss rate and has helped a significant number of businesses start up or expand. The program's success is due in part to its staff -- Job Start's first coordinator, who served until recently, is an extremely creative and dedicated person who was not afraid to take risks and assumed personal responsibility to make sure loans were repaid. The program's success can also be attributed to the capability of low-income entrepreneurs in Vermont, many (but not all) of whom are well-educated in-migrants who may not be so prevalent among the rural populations of other states. As noted earlier, the small size of the loans has also been a factor in achieving the low loss rate. And finally, the program is considered a success because it started out with realistic expectations. In contrast to some programs that set high goals for business expansion or job creation, Job Start hoped only to help low-income individuals make a living wage through self-employment: It does that.

State Support for RDCs

General Description

Vermont has 35 local development corporations (LDCs) which were created by groups of local businesspeople to enable their towns to qualify for assistance from the Vermont Industrial Development Authority (VIDA) such as financing for industrial parks. Many also qualify as LDCs under the Small Business Administration's 502 program, which enables them to leverage SBA money to help finance new plants. In recent years, groups of towns have joined together to form regional development corporations (RDCs), which perform a function similar to a LDC's but on a countywide scale. The LDC and RDC approach to economic development focuses on industrial development -- attracting new industry to the area and helping existing industry expand. These ends are sought by hosting visits of representatives of potential new businesses to the community and by helping business owners put together financial packages for expansion.

Until a few years ago, only the LDC in Burlington had full-time staff. Spurred by the success of that body, the state legislature decided to appropriate funds for full-time staff positions in RDCs, and it allocated $20,000 annually for each of the state's nine RDCs. Funds are channeled through the state's economic development department. In order to receive a grant, an RDC must raise at least $10,000 in matching funds from its members, and it must hire at least one full-time staff person. Most have hired an economic developer and a secretary.

RDC staff carry out some industrial recruiting themselves, and they work closely with the state's industry hunters. Most of Vermont's recent economic growth, however, has come from expansions of existing local industry, so RDC staff also keep abreast of local companies' plans and help them finance land, buildings, and equipment for expansion. They do so by packaging VIDA and SBA loans, which, together, can lower the cost of plant expansion substantially.

A typical RDC loan package might consist of fifty percent bank financing at market rates, forty percent VIDA financing at four percent interest, and 10 percent "RDC financing" (the RDC borrows this money from the client firm and lends it back at no interest or at a nominal rate); the overall interest rate is thus well below the market rate. RDCs that are certified as SBA 503 corporations can reduce the cost of borrowing even further, since 503 financing at treasury bill rates can be substituted for the bank's portion of the loan package. (RDCs generate part of their operating budgets through their loan packaging activities -- they can retain a fee for packaging 503 loans and VIDA deals.) Using these several financial mechanisms, one RDC last year helped five companies build plants in its county. The aided firms included two West German companies entering the United States for the first time, and a locally owned wood stove manufacturer that expanded from 20 to 80 employees.

Program Administration

State aid to RDCs is a decentralized program. Money is allocated to all RDCs that meet the eligibility criteria: Their boards must reflect their member towns; they must obtain matching funds from local government or business; and they must agree to hire a full-time staff person. Beyond that, the state exercises no control over staffing or staff activities. It is thus clear that RDC staff work for their regional organizations, not for the state, and that situation forces them to be responsive to local needs. State officials are pleased with the quality of staff hired by the RDCs through the program. Local RDC staff, considered together, actually outnumber staff in the state economic development office. This means, in effect, that the state has chosen to disperse its resources to local organizations rather than retaining them under central control.

The state's department of economic development holds monthly meetings with RDC staff to exchange information and plan strategies. State staff, however, claim no particular expertise and do not see themselves as trainers for RDC staff; rather, they try to facilitate the flow of information throughout the state. The state reserves a pool of money from the RDC appropriation for training, and, on request from individual RDC staff members, it pays their way for training seminars.

The state also helps by referring new industrial prospects to individual RDCs, though some RDCs complain that such referrals are not made uniformly throughout the state. The Burlington area tends to attract a good portion of the new industry because it is a metropolitan area with a university, airport, and other facilities. When a prospective newcomer firm expresses an interest in Burlington, state economic development staff rarely try to steer it to a more rural area.

In general, relations between state economic development officials and the RDCs are good. RDCs work closely with VIDA in packaging loans, and the state's development department helps link RDC staff together to prevent the isolation that might otherwise occur. One basis for smooth relations between RDCs and the state is undoubtedly the state's willingness to give the local groups autonomy in hiring staff and conducting activities. An important question about this mode of operation, however, goes to whether the RDCs might benefit from more guidance and technical assistance from the state.

Assessment

RDC staffs have been effective in packaging loans for expanding industries and, to a lesser extent, in recruiting new industry to their areas. Additionally, several RDCs have initiated other development-related programs such as regional transportation systems.

In the past year, two RDCs have been designated Certified Development Companies under the SBA 503 program, and others hope to be so designated soon. As noted above, that designation gives RDCs access to capital for long-term loans at manageable interest rates. The 503 program's requirement that local development organizations have full-time staff makes Vermont's RDC assistance program particularly meaningful. Without state assistance, few LDCs or RDCs would have full-time staff and hence few would qualify to become 503 corporations.

Funding for the RDC program appears secure. The legislature appropriated $190,000 this year and has guaranteed that level of funding for the next five years. The program appears to be popular because it costs relatively little, serves the entire state, and has the backing of influential local businesspeople and developers.

One reason the program is manageable in Vermont is, of course, the size of the state. Vermont can be blanketed by making grants to a relatively small number of RDCs (nine), each of which in turn serves a relatively small geographical area and population. The program's effectiveness is further enhanced by VIDA's financing resources and by the state's determination to increase manufacturing industry.

In the next few years, more states may begin contemplating programs like this to enable localities to take advantage of SBA's 503 program. If they do, they can learn much from Vermont's experience. First, local autonomy seems crucial to the program's success. Without local control, RDC staff would not have a clear loyalty to the RDC, and local governments would not necessarily have a commitment to the program. Backup support from the state is equally crucial in the form of training, mechanisms for exchange of information and ideas, and a solid state finance agency that can work with local staff. Finally, hiring the right staff is critical, since, in most cases, they will work alone.

Act 250

General Description

Act 250 is Vermont's basic law regulating development. It is a singularly broad law; it covers all commercial and industrial developments of more than one acre, housing developments of more than

10 units, road construction, and all construction on sites situated above an elevation of 2500 feet. The law assesses development proposals on the basis of ten criteria, including: impact on water supply; potential for causing pollution or highway congestion; fiscal impact on municipalities; impact on forests, agricultural land, and energy conservation; and conformance with local or regional development plans.

The law was enacted in 1970 in response to the construction of large-scale ski resort developments in southern Vermont, which were seen as environmentally unsound in the most basic sense -- they caused erosion of hillsides and polluted the water supply. Since then, the original legislation has been expanded, and its implications have been widened through an accumulation of case law. Two recent controversial cases, both in the Burlington area, show just how far Act 250 has been extended. In the first case, the Pyramid Company was refused a permit to build a shopping mall on the outskirts of Burlington because the construction might have hurt the city's central business district. In the second, a microelectronics company was restricted in the selection of a site for its new plant in order to preserve 40 acres of prime farmland.

Act 250 is administered by an interesting combination of state and local entities. Nine 3-member district commissions, appointed by the Governor, rule on all permit requests. Their decisions may be appealed to the state-level Environmental Board, which is also appointed by the Governor. Each district commission has one staff person, and although the district commissions are independent of one another, their staffs all report to a single official -- the staff director for the state Environmental Board. All of the commissions' staff people are administrators, not technicians; for technical support, the system relies on a number of state agencies. An attorney at the state environmental agency chairs a committee of state agency staff and coordinates their work related to Act 250. The state committee often files briefs or appears at Act 250 hearings. And in recent years, the Development Cabinet (which consists of several department-level secretaries) has become involved in Act 250 cases of major significance.

All activity under Act 250 is funded by the state, except for the involvement of local planning boards, town selectmen, and regional planning commissions, which are statutory entities and can file briefs in Act 250 proceedings. Despite continuing controversy over the Act, the state has continued to appropriate funds for its enforcement.

Program Administration

As a state program which regulates local land use, Act 250 has the potential of creating conflicts between state and local government. Such conflicts, however, have in large part been avoided, partly because of the way the program is structured administratively. District commission members are appointed by the Governor, and to date the Governors have kept these appointments apolitical and well-balanced -- a strong environmentalist, for instance, will be balanced by an advocate for development. In addition, the local commissions reflect the differences among regions within the state -- a proposal that would be easily approved in Burlington might well be rejected in a rural area on the grounds that it was too large for the area. District commissions can exercise quite a bit of discretion, since the basic legislation contains few details and since there are no attendant regulations; consequently, most commission decisions are governed by precedents established through case law.

The autonomy and discretion of the district commissions is balanced by the district staff, who are more closely tied to the state. It is the staff member who actually drafts the permits which detail what the developer can and cannot do, and the state-level supervisor of all the commissions' staff members tries to maintain a degree of uniformity across the state.

In the absence of good interagency coordination, the Act 250 process would never work. The attorney at the state environmental agency who coordinates state-level work holds weekly meetings with his "Act 250 club" to review permit applications and to determine which cases the state needs to involve itself in. Then staff at the affected state department -- transportation, agriculture, energy, air and water quality -- research the development proposals and prepare presentations for district hearings.

Assessment

Act 250 clearly has not served as a brake to development in Vermont: over the past 10 years, fewer than 3% of the 3,591 permit applications have been denied. The Act has, however, affected the quality of development. Projects are granted permits only after inclusion of conditions that ensure they will be environmentally sound in design.

The Act has also affected the specific location of various developments. Because Vermont has only a limited amount of good farmland, protecting it from industrial, commercial, and housing development has become an important issue, particularly since the areas that are growing fastest happen to be the areas with some of the best farmland. Furthermore, many company executives are attracted to Vermont in the first place because of its beauty, and some see no inconsistency in wishing to build plants in the midst of picturesque pastures. The Act 250 permit process counteracts that tendency by giving incoming firms an incentive to locate in existing industrial parks. The parks are granted umbrella permits which eliminate the need for tenants to apply for individual permits, thus making it simpler and cheaper for newcomers to locate in the parks.

Although Act 250 has come under some criticism lately (from the state's secretary for development, among others), most observers do not believe the Act is in danger of repeal. The Act has become well-established in the state, and while it will continue to change over the years, it will, in all probability, remain a part of the development process in Vermont.

Much has been written about Act 250*, and much of what has been written would be of interest to other states interested in initiating a similar process for managing development. What is particularly worth noting here is that the state's role in guiding development can be as important as its role in encouraging development. Many Vermonters believe that Act 250 has actually contributed to economic growth by protecting the very qualities that make Vermont attractive to investors and employers. The potential for the development of a bureaucratic establishment acting to scare away potential industry -- feared by some early on -- has simply not been realized.

Northeastern Vermont Development Association

General Description

NVDA is a 30-year-old regional development corporation and planning commission covering the three counties that comprise Vermont's

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*The state Environmental Board has prepared a bibliography of 51 articles dealing with the Act.

Northeast Kingdom. This is the poorest and most rural region of Vermont -- the largest town has a population of 7,946, and only three other towns have more than 3,000 people. NVDA is concerned with economic development in the broadest sense -- development of housing, transportation, and hospitals, as well as industrial parks. As a regional planning commission, it helps member towns with planning, zoning, and proposal writing; as a RDC, it operates two industrial parks, administers a revolving loan fund, and carries out industrial recruitment.

NVDA's director describes the organization's economic development strategy as similar to "the old EDA strategy," since it concentrates on the establishment of growth centers and secondary growth centers within the region. The approach is targeted closely on industrial development -- building industrial parks, helping firms obtain financing to build plants -- and, over the years, NVDA has received considerable EDA assistance for such activities.

At the same time, however, NVDA has gone beyond the narrow definition of economic development to assume responsibility for a variety of human service programs, including the region's program for the elderly, a regional transportation system, and CETA programs. Its broader interpretation of economic development is also evident in its requirement that firms receiving NVDA assistance pay at least 150 percent of the minimum wage. In addition to industrial development and human services work, the organization has also worked to promote tourism in the Northeast Kingdom. While agriculture (dairy farming) is a mainstay of the regional economy, NVDA is not involved in agricultural development, because "other groups are taking care of that."

NVDA is governed by a board of approximately 100 members including two representatives from each town in the region (appointed by the town selectmen), every state legislator from the region, and representatives of several citizen groups and a college. The broad base gives the NVDA board a degree of political influence with the Governor and within the Northeast Kingdom. The organization's staff, however, is small -- a director, assistant, community development specialist, industrial development specialist, and a secretary -- and is funded by the state's grant program to RDCs.

Approximately two-thirds of NVDA's operating budget comes from the state under grant programs for RDCs, regional planning commissions, and other local agencies. One-sixth of its funding is local, and one-sixth federal. Through its ties with an EDA economic development district, NVDA has access to a $500,000 revolving loan fund; and it recently established its own revolving loan fund through a special CDBG grant. As a RDC, NVDA also has access to VIDA financing for industrial parks and plant expansions. Over the years, the Association has also used HUD and other federal monies for housing development projects.

While NVDA has contributed to many aspects of community development in the Northeast Kingdom, the organization prides itself particularly on its industrial development activities. It owns two industrial parks, financed with help from VIDA. Two LDCs in the region have industrial parks as well, and NVDA helps market all four parks. The Association's first priority is to work with locally based firms that are expanding but in the past year NVDA has also begun doing industrial recruiting itself. It was able to take on this new function when it hired a full-time industrial developer through the state's RDC assistance program.

Through the joint efforts of the industrial developer and the director (who has been with NVDA for over 10 years), NVDA keeps tabs on local industries' expansion plans and offers assistance in loan packaging, locating industrial space, and solving environmental problems. NVDA's dual status as regional planning commission and regional development corporation permits it to stay aware of economic development activity in the region and enables it to get involved in all phases of development, from helping a town write a proposal for extending its water system to helping a firm obtain financing for expansion.

NVDA's director describes the Northeast Kingdom as a capital shortage area; most local banks are branches of Burlington banks, and money tends to be exported from the region and invested in Burlington. The four locally based banks are small and have conservative lending policies. NVDA has helped small firms work around the banks by borrowing money secured by its own assets (two industrial parks and residential property) and lending it to companies that the local banks had turned down.

NVDA's revolving loan funds also help firms that have trouble obtaining bank financing. NVDA's first revolving loan fund was a $500,000 EDA fund earmarked for the Northeast Kingdom in 1980. In one year, $300,000 has been lent in amounts between $20,000 and $100,000. Most of the money has gone to local firms that were expanding, including several small machine tool companies whose growth has been fed by the booming electronics industry in Burlington. Most loans have been for fixed assets, but some have been for working capital. A typical loan package includes twenty percent financing from the revolving loan fund, forty percent from VIDA, and forty percent bank financing; NVDA's director believes that the revolving fund has leveraged bank loans that would not otherwise have been available to those businesses. The fund has also reduced the cost of capital, since it brings in sixty percent of the loan amount (VIDA's share plus the revolving fund's share) at less than the market rate.

NVDA's new revolving loan fund will lower the cost of financing even further. This year, NVDA obtained $100,000 in CDBG funds (through a special grant to the state of Vermont) to lend in conjunction with its newly designated Certified Development Company under SBA section 503. NVDA plans to use this fund for deals that cannot attract bank participation; a typical package might include ten percent revolving fund financing, forty percent VIDA financing, and fifty percent financing through the Certified Development Company.

Relationship with the State

NVDA described its relationship with state agencies as varying from smooth to rocky, as perhaps befits a regional advocacy group. NVDA frequently urges the state to target more assistance to the Northeast Kingdom and other poverty pockets by directing more industrial prospects to those areas or by limiting VIDA's four-percent financing to depressed areas. While the Association has been frustrated in these efforts, it has had more success in other areas. Its $100,000 CDBG revolving loan fund, for example, was obtained through a combination of NVDA's initiatives and political influence. NVDA learned of the availability of discretionary CDBG money and asked the state to file an application in its behalf. The state was somewhat reluctant to do this without giving other regions a chance to apply for the funds, but it did so anyway. A regional organization with less political clout would not have been able to obtain the CDBG money so readily.

Assessment

In its 30 years of operation, NVDA has been a catalyst for many kinds of development in the Northeast Kingdom, from housing to human service programs to industrial development. While other organizations in the region have performed similar functions over the years, NVDA's role as both a RDC and a regional planning commission has given it special status. It has been closely tied to local governments, helping them with zoning, planning water and sewer systems, and low- and moderate-income housing. At the same time, it has developed strong relationships with local industry, providing loan packaging, financial, and technical assistance for expansion. In a region where local governments are quite small and have limited capacity to foster economic development, NVDA has filled a gap in the planning and initiation of development projects. As a quasi-public organization, it has accomplished more than either a governmental body or a typical local development corporation could have done, helping governments plan for development and then helping that development to take place by building industrial parks, packaging loans, and the like.

NVDA will clearly be affected by federal cuts in EDA, HUD, and FmHA programs. While it has not relied on federal programs for its own operating budget, many of its community development projects and its revolving loan funds would not have been possible without federal funding. The director points out, however, that a substantial industrial infrastructure has been put in place in the Northeast Kingdom during the '70s, and federal development funds are less essential than they were 10 years ago. Between VIDA's industrial financing and state assistance for operating expenses, NVDA's future as a regional economic development force looks relatively secure.

There is another development organization in the Northeast Kingdom that merits mention along with NVDA: the Northern Community Investment Corporation (NCIC), a private nonprofit CDC funded for the past six years by the federal Community Services Administration. It serves three counties in northern New Hampshire in addition to Vermont's Northeast Kingdom. NCIC grew out of local community action programs in the two states, and it is tied less closely to the political structure than NVDA; it does, however, have a strong local base of support, with 1000 members ranging from low-income citizens to business proprietors.

NCIC's federal funding for both administration and business investment has enabled it to offer direct financing to a wide range of businesses. It has three business development programs, designed to meet three needs of the region -- the needs for venture capital, developmental debt capital, and loan guarantees for small businesses. In addition, the organization develops and manages low- and moderate-income housing.

In its venture capital program, NCIC offers equity and subordinated debt to new and expanding businesses. Recipients have included a paper mill, a shoe manufacturer, a metalurgical company, and a printing company, all in new Hampshire. Between 1976 and 1980, NCIC invested $2.7 million in local businesses and leveraged over $10 million in bank and private financing.

NCIC's second business development program is a $1.5 million revolving loan fund established a year ago with funds from the National Rural Development Loan Fund. This money has been used so far for moderate-sized loans ($50,000-$250,000), which in most cases have leveraged an equal amount of bank money. The fund has helped finance construction of a supermarket and provided working capital for an electrical contractor, a printing company, and a skiwear manufacturer.

The third program, a revolving loan guarantee fund, helps smaller businesses by guaranteeing up to 50% (or up to $20,000) of bank loans. Among the businesses helped by the guarantees have been retail stores, a small manufacturer of reflective apparel for joggers, and an auto repair shop. Most of the loans guaranteed were for business expansion.

NVDA and NCIC have taken different directions as development organizations, partly because of the different types of funding available to them. With access to investment capital through the CSA Title VII program, NCIC was able to pinpoint capital gaps in the region and design its assistance accordingly. NVDA, lacking access to such flexible money but having close ties to local government, has concentrated on infrastructure development and on helping firms obtain VIDA financing for expansion. Through its equity financing, NCIC has been able to help business start-ups and other high risk ventures that would not qualify for VIDA financing; through its revolving loan and loan guarantee funds, it has assisted retail and service businesses that would also have been ineligible for VIDA assistance.

In an isolated, underdeveloped region like the Northeast Kingdom, there is a need for organizations like both NCIC and NVDA. Local governments need help in planning and developing industrial infrastructure, housing and transportation services, and other components of economic development, and businesses need sources of financing to supplement what is available in the private market. A financial assistance organization like NCIC, though, is difficult to develop. It requires staff with sophisticated business skills and a pool of investment capital that is hard to come by, especially with the demise of the CSA Title VII program. A more political organization like NVDA is also hard to develop, though for a different set of reasons. It takes years of work and a good sense of politics to build credibility and gain the trust and support of local governments and the business community in a three-county region. And while NVDA has relied more on state than on federal funds for its operation, its industrial parks probably could not have been constructed without federal assistance. That sort of federal money, of course, is no longer available.

The public-private nature of both organizations is essential to their functions. They could not operate without public funding, and their purpose is a public one -- to develop the local economy, create jobs, and improve the local quality of life. Yet close cooperation with the private sector is necessary to achieve those goals. In an economically depressed area like the Northeast Kingdom, private business needs all the help it can get from organizations like NVDA and NCIC in financing, loan packaging, and infrastructure development.

SOURCES

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NORTH CAROLINA

I. INTRODUCTION

Overview

With over five million residents, North Carolina is the 11th most populous of the states. Its residence patterns are predominantly rural -- in 1970, less than half of the population lived in urban areas (cities or towns of more than 2,500). And even its urban population is widely dispersed, with many cities in the 30,000 to 100,000 population range, and only one as large as 300,000. While all areas of the state are showing growth at present, the smaller cities and towns are experiencing the fastest rate of growth.

North Carolina's economy has been marked historically by relatively low-wage jobs in the furniture, apparel, and textile industries. Its industrial production workers receive the lowest average hourly wages in the nation, and it is also the nation's least unionized state. North Carolina has a larger percentage of its industrial work force employed in manufacturing than any other state, but it also has a strong agricultural base. North Carolina ranks among the top states in rural farm population and eleventh in farm sales.

The state stretches 600 miles from the Appalachian Mountains eastward to the Atlantic Ocean. It has three major regions -- the Mountains, the Piedmont, and the Coastal Plains -- each with its distinct characteristics. The Piedmont, in the center of the state, is the most industrialized area, the most urbanized, and boasts the highest per capita income. The western Mountains and the eastern Coastal Plains have experienced growth in recent years -- both industrial expansion and population growth due to in-migration of retirees and vacation homeowners -- but their per capita incomes still lag considerably below that of the Piedmont.

North Carolina had a 1979 per capita income of $7,359, placing it 39th among the states. The state's manufacturing and overall employment bases have expanded in recent years, and employment and income have been growing in both urban and rural areas. Higher-wage jobs, however, remain concentrated in the urbanized Piedmont region. Much of the rise in per capita income in rural areas is attributed to an increase in labor force participation, especially among women, and to a shift of low-wage agricultural labor into manufacturing jobs. These trends, however, seem to have peaked, and future income gains in rural North Carolina will depend largely on the development of higher-wage jobs.

Economic development in North Carolina is generally equated with industrial development, and the state is recognized nationally for its success in industrial recruitment. All levels of government are involved in this effort. The state Department of Commerce spearheads the industrial recruitment drive, with support from the many cities and counties that employ local industrial developers. The Department encourages communities to identify appropriate types of industries and to develop local marketing strategies; communities that meet these and other industrial recruitment criteria are designated "Communities of Excellence" and are given special preference in the state's recruitment efforts. The Department of Commerce employs industrial field representatives, working from seven regional offices, to help match industrial prospects to specific communities, and it holds workshops to train economic development teams from small towns and rural areas.

The Department of Commerce is also involved in a number of other economic development activities: assistance to incoming and expanding businesses; export marketing; labor force data; identification of financing for business and industrial development; technical assistance to minority businesses; and buyer-supplier conferences. The Department operates a center to assist industry in adopting new technology, developing new products, and improving manufacturing processes, and it administers a revolving loan fund to help supply more shell buildings for leasing by incoming businesses.

The state Department of Natural Resources and Community Development (NRCD) and the Department of Community Colleges (DCC) are also involved in statewide economic development. NRCD is the balance-of-state operator for the CETA program and it provides technical assistance to communities for infrastructure development and community economic development through the CDBG and UDAG programs. North Carolina's community college system, one of the most extensive systems in the country, is under increasing pressure to meet the industrial training needs of the future. One response has been the New and Expanding Industries Program, under which DCC designs training programs to meet the specific employment needs of new companies.

Finally, the state is divided into eighteen multicounty planning regions served by Lead Regional Organizations (LROs). LROs offer assistance to local governments in a range of areas -- human services, infrastructure building, community development -- and several offer assistance in economic development planning and business development. Two years ago, for example, a LRO received an EDA grant to create a revolving loan fund for business development. Several counties have formed authorities to issue industrial revenue bonds, and many towns and counties have created local development corporations.

State Rural Policy

North Carolina's leaders have long espoused policies supporting economic development through diversification of industry and increasing employment opportunities in rural areas. The state's current Governor, James Hunt, has adopted these means as part of his overall policy for creating more and better jobs in North Carolina in order to increase per capita income. During its first term, his administration developed the Balanced Growth Policy, which seeks to coordinate public and private investments throughout the state toward the goal of providing higher-wage jobs where people live. The Governor attempted to put the Balanced Growth Policy into place through such initiatives as the Farmers Home Administration Agreement, which tried to target FmHA resources to small towns and rural areas according to the tenets of the Policy. A federal-state-local Rural Development Coordinating Committee was set up to oversee implementation of the Agreement. The committee formulated a "Small Cities and Rural Areas Development Strategy" which dealt with development issues related to agriculture, business and industry, housing, and community facilities.

The Balanced Growth Policy, as such, has received little attention during Governor Hunt's second term. While the commitment to "more and better jobs" continues and an extensive industrial recruitment effort is still under way, the Balanced Growth Policy Board has been replaced by a new Commission on the Future of North Carolina, charged with planning development in the state to the year 2000. The Commission will address such issues as "people in transition, basic human needs, the economy, resource constraints and environment, food and fiber, impact of technology, transportation, and citizens/government." It is too early to tell if the new Commission's policies will continue the rural focus or the emphasis on dispersion of growth that figured in the earlier policies.

Programs Studied

Although MDC has monitored a wide range of rural development programs in North Carolina over the past two years, this report covers only those projects which are most directly related to economic development. (Readers seeking information on other Rural Employment Laboratory projects are referred to The North Carolina Rural Employment Laboratory: First-Year Final Report [May 1980], and to interim reports [November 1980 and May 1981] entitled Facilitator's Role in Collaborative Rural Development: The North Carolina Rural Employment Laboratory.) The efforts treated include two economic development projects and a regional policy development organization.

The first project is the Wanchese Harbor Development Project, a state effort to build a large-scale, modern, diversified seafood processing center on the North Carolina coast. The project involves local, state, and federal agencies along with private industry in an attempt to capture for North Carolina the full economic benefit of the seafood harvested along the state's coast.

The second economic development project treated is the Graham County Railroad Project. It is a locally initiated effort to boost the sagging economy of a sparsely populated, rural, mountain county by reopening its only link with major freight-handling rail carriers. It has also involved a wide range of federal, state, and local participants. Both projects provide lessons in planning and implementation of complex, long-term development projects in rather isolated rural areas.

The third case study is of a public-private leadership council called Western North Carolina Tomorrow. The council was organized to increase citizen participation in the formulation of future regional development policies and programs for a 17-county area in southwestern North Carolina. WNCT provides an example of the combination of technical resources from a regional university with the leadership of local elected officials and private citizens to devise and implement regional growth policies for a large rural area.

II. RURAL DEVELOPMENT PROGRAMS AND INSTITUTIONS

Wanchese Seafood Industrial Park

General Description

The Wanchese Seafood Industrial Park is a joint local, state, and federal initiative to develop the North Carolina seafood industry. At the small fishing village of Wanchese on the North Carolina Outer Banks, an industrial park devoted entirely to the seafood industry has taken shape after years of planning. The park lies on the southern end of Roanoke Island, several miles northwest of Oregon Inlet, the Dare County fishing fleet's gateway to the Atlantic. The seafood park is state-owned; it is operated by a state-created authority similar to a ports authority.

The project at Wanchese has been developed in three phases. First, the harbor was enlarged and deepened. Then, on-shore facilities needed to support commercial seafood processing and fishing operations were constructed. At present, the seafood park is being promoted to prospective commercial tenants.

The first two phases of the project -- harbor preparation and construction of basic infrastructure -- have been completed with a combination of local, state, and federal funds. During the ongoing final phase of development, private firms are building and will operate processing facilities under tenancy arrangements with the State of North Carolina. The state, in turn, will administer the park and maintain state-owned facilities with rents and fees paid by the commercial tenants.

Dare County encompasses most of North Carolina's Outer Banks, including the Hatteras National Seashore and Wildlife Refuge. Tourism is the county's major industry; underemployment and seasonal unemployment are high. The successful development of the Wanchese Seafood Industrial Park would mean a second major employment sector for the county. Development of the fishing industry would complement the local economy during the winter months when tourism is down, and it could also provide some measure of insurance to a single-industry county that stands to lose much of the infrastructure for its economic mainstay in the next hurricane.

Dare County has played an important role in the project since its inception. The chain of events which led up to the seafood industrial park actually dates back to the 1940s, when Dare County residents began efforts to obtain federal funding to stabilize Oregon Inlet and improve the navigation channel into Roanoke Sound. The channel improvements were completed in the early 1960s; in 1970, Congress authorized funds for the expansion and deepening of Wanchese Harbor and the stabilization of Oregon Inlet, with the stipulation that the state develop and maintain the expanded harbor. While the inlet and harbor projects were separate, they were also very much interrelated: If Wanchese is to realize its commercial fishing potential, proponents state, harbor development must be accompanied by the guarantee of safe ocean passage that only the inlet stabilization project can provide.

Attempts to acquire the necessary land for harbor expansion and to resolve environmental impact questions spanned nearly six years. In December 1976, Dare County and the North Carolina Ports Authority acquired land for the expansion in the name of North Carolina. Until that point, Dare County interests had been the sustaining force behind the Wanchese Project; at that time, the state was asked to take the lead role in the overall development project.

The Coastal Plains Regional Commission also played an instrumental role in the development of the seafood industrial park concept in North Carolina. The Commission had a continuing interest in the potential economic impact of seafood industrial parks, and it had commissioned a study of such parks at about the time the State of North Carolina was preparing to develop Wanchese Harbor. State officials saw in Wanchese an opportunity for addressing an issue much larger than simple harbor development. Encouraged by CPRC, they proposed that North Carolina build a seafood industrial park at Wanchese Harbor to attract a more complete and diversified seafood industry than the state had ever housed.

The Coastal Plains Regional Commission approved a grant of $325,000 for planning, land acquisition, and engineering design of the seafood industrial park. With the Commission's grant providing needed leverage, the state applied for and received major funding for project construction from the U. S. Economic Development Administration. A $4,240,387 grant was awarded to the state to help build the seafood industrial park as a means of addressing the long-term economic deterioration of the area. Project construction funds in the amount of $2,500,000 were appropriated by the North Carolina General Assembly. In addition to these grants and appropriations, the North Carolina Department of Transportation agreed to pay 53 percent of the cost of constructing an access road to the project boundary. Altogether, state planners assembled a funding package of federal, state, regional, and local funds totaling $7,065,387.

As funding for the project was secured and the park was about to become a reality after nearly 30 years of planning, some Wanchese residents developed concerns about the project's impact on their community and their daily lives. In June 1977, the Wanchese Harbor Citizens Advisory Council was established by the North Carolina General Assembly to study the impact of the project and report anually to the Governor. The reports were intended to identify concerns of the citizens regarding the project, to make recommendations on the orderly development of Wanchese, and to comment on any changes in the quality and tranquility of life in Wanchese and the surrounding area.

The Advisory Council has been a focal point of discussion and information for Wanchese citizens wishing to know more about the

$7,000,000 investment taking place in their community. Rumors of 500-600 new jobs and the entrance of large national and multinational firms created apprehension and opposition among some citizens. Today, while the project is not without some local opposition, it has gained widespread local support and has come to be regarded by many Wanchese residents as the basis for the future of the fishing industry and the economic vitality of Dare County.

Construction of the harbor and on-shore facilities began in mid-1978 and was completed in September 1981. During the construction phase, several activities related to the seafood park took place: local residents were given skill training in marine crafts in preparation for the new jobs which the park would create; the state created a new seafood park authority to oversee and direct operations at Wanchese; and the Corps of Engineers continued its unsuccessful efforts to gain permission for the Oregon Inlet stabilization project.

In 1979, the North Carolina Department of Labor implemented a skill training program designed to create a link between the Wanchese project and the local labor force by providing apprenticeship training in the marine trades for CETA-eligible persons. This program, supported by the department's CETA-funded Skill Training Improvement Program, was designed to provide a year-long training program followed by a three-year apprenticeship for local residents. Training was conducted by the local community college. Forty-three of the original 54 trainees graduated from the first-year classroom training program in March 1980. Of those graduates, 28 were placed in apprenticeships, and seven were placed in nonapprenticeship jobs with local employers.

The North Carolina Seafood Industrial Park Authority was created by the General Assembly in 1979 to develop and operate the Wanchese Seafood Industrial Park. The authority has all the powers of a corporate body and must approve all leases in the park. The General Assembly specified that park operations would be administered by an executive director, who reports to the North Carolina Department of Commerce. Prior to the establishment of the Authority, responsibility for the harbor and park development was divided among several state agencies.

On March 23, 1981, dedication ceremonies were held at the Wanchese Seafood Industrial Park. Wanchese Shiplift, the first company to locate at the park, announced that its facility would be complete and fully operational by July of 1981.

Although a number of firms have expressed interest in locating at the park, no additional leases have been negotiated since the first lease was drawn in November 1980. Prospective tenants are waiting for word that the Oregon Inlet stabilization project will be completed before they make firm commitments to enter the park

Congress authorized funding for the Oregon Inlet stabilization project in 1970. Since that time the Army Corps of Engineers and the United States Department of the Interior have been deadlocked over the project. Interior refuses to issue the necessary construction and access permits to the Corps, maintaining that it is not legally empowered to do so. The National Park Service and the United States Fish and Wildlife Service, both under the Department of the Interior, have jurisdiction over the beaches on the north and south sides of the inlet. Department officials have maintained that the stabilization project can be carried out "only through explicit congressional authorization and appropriation of lands." In summer of 1981, the Secretary of the Interior reiterated the Department's previous position that it had no authority to issue permits for the project and offered a compromise: channel dredging. The Corps has prepared plans for attempting to maintain an all-weather channel at Oregon Inlet by dredging alone, but its engineers still believe that dredging is a poor substitute for the stabilization project.

Assessment

The Wanchese Seafood Industrial Park will create a demand for both skilled and unskilled labor. Project planners estimated that over 600 new jobs will be created when the park is fully operational. Jobs resulting from the project could reduce the widespread underemployment in the area. At the same time, the project could attract many new workers to Dare County, creating a high demand for housing in a resort area with high land prices and little developable land and straining county and town resources through increased demand for public services.

The skills-training project operated by the North Carolina Department of Labor was not integrated carefully into the overall development of the project at either the state or the local level. Moreover, the graduates of the training program were ready for apprenticeship placement in March 1980, a full year before the opening of the park's facilities. Consequently, the training effort was never tied closely into the larger project to which it was targeted.

The park is envisioned by its planners as a spur to the development of the commercial fishing industry in North Carolina. The development of Wanchese Harbor is seen as an incentive for current and prospective fishermen to invest in more efficient boats and equipment for offshore fishing. Processing facilities in the park will create a steady year-round market for fishermen. Landing of conventional food-fish should increase; in addition, since much of the seafood to be processed at the park is slated for export, landings of several currently underfished species may increase.

The controversy over the Oregon Inlet stabilization project, however, is still a brake on the larger Wanchese project. The park's marketing strategy hinges on securing tenants for the park's basic activity -- seafood processing -- and three prime sites have been reserved for that activity. But the large seafood processing firms are waiting for the impasse between the Army Corps of Engineers and the Department of the Interior to be resolved before committing to a large investment in the park. The Oregon Inlet stabilization project is important to safe navigation into and out of Wanchese Harbor, and, consequently, to the successful operation of the seafood industrial park. The controversy between the Corps of Engineers and the Department of the Interior has caused the State of North Carolina to lose potential revenue, slowed the implementation of the seafood industrial park, and diminished the park's attractiveness to large commercial seafood processors.

Project development has been a long and arduous process. It has depended on strong and sustained local leadership, intergovernmental cooperation, joint funding, and compatibility of goals among the different levels of government. The project has not been without its share of problems. Enviromental concerns stalled the project and continue to plague its companion project at Oregon Inlet; and some local residents objected to the project on grounds that it would create a boom-town effect. Political support has been crucial. Without the backing of the area's Congressman and that of three North Carolina Governors, the project would not have survived.

Those closest to the Wanchese Project believe that environmental and financial factors would make it impossible to replicate the project today. Environmental regulations have become much more restrictive in the years since the project underwent review and approval, and the present day cost of financing such a project would be prohibitive. Moreover, the Coastal Plains Regional Commission, which promoted the park concept and provided seed money, has been dismantled.

Graham County Railroad

Summary

The Graham County railroad project is a locally initiated effort to boost the sagging economy of a sparsely populated rural mountain county by restoring its only railway link with major freight-hauling rail carriers. It began in 1975, when severe flooding forced the closing of the dilapidated 12-mile line and abandonment of a fledgling scenic railroad venture that sought to attract new tourist dollars to this county of 6,500 residents. Soon thereafter, the railroad's former owners -- assisted by the economic development staff from nearby Western Carolina University -- began efforts to assist county business and government leaders in forming a local development corporation to pursue the acquisition and restoration of the line.

Progress has been sporadic over the past six years as project proponents have sought to attract funds from a multiplicity of federal, state, and local sources. Major problems have included delays in obtaining the railroad's operating charter and fixed assets (first attempted through direct purchase and later accomplished via tax-exempt donation), faulty planning at crucial stages in project development, escalating costs during a period of rampant inflation, the unavailability of developmental financing and reliable developmental assistance, the difficulties inherent in attempting to satisfy the diverse technical requirements and proposal deadlines of multiple funding agents, and resistance from a regional planning commission and elected officials in neighboring counties who have questioned both the project's origins and its economic viability.

Despite these difficulties, construction began in February 1981 and is now estimated at roughly 80 percent complete. Barring further delays, all work should be finished and the line reopened by mid-January 1982. Whether the railroad will resume operations at that time, however, remains to be seen. The current national economic slump has hit hard at Graham County's only major manufacturing plant -- a longtime proponent of the railroad project and, presumably, the county's major prospective shipper once the line is reopened. Production cutbacks and personnel layoffs in recent months have created a situation in which this manufacturer may not be able to guarantee sufficient shipping volume to make the railroad's operation a profitable venture for the proposed lessee/operator -- a Philadelphia-based company. And, in the event that the proposed lessee/operator defaults on its agreement, there is little likelihood that the currently inoperative scenic railroad venture will be reactivated.

Clearly, the eventual impact of this project will remain in doubt for some time to come.

General Description

The Graham County project began in the spring of 1975, when local business and civic leaders became interested in reviving an antiquated short-line railroad that already was in acute disrepair when flooding washed away several trestles and forced the closing of a small but promising scenic railroad venture.

The real impetus for what later became known as the Graham County Railroad project, however, came from the heirs of the line's original owners. They, with the help of EDA-funded planners from Western Carolina University, first proposed to sell the abandoned trackage and rights-of-way to the county, with the idea of forming a local development corporation to seek state and federal funds for reconstruction and to oversee the line's restoration and reactivation. At the time, the proposed selling price was $125,000, and the estimated repair costs were approximately $400,000.

The Graham County Development Corporation (GCDC) was formed in 1976 as an entity for acquiring the line, obtaining public and private funds to rebuild it, and (eventually) overseeing its operations. This developmental strategy changed in 1977, however, when EDA ruled that federal funds could not be used to purchase private property. Project proponents subsequently adopted a new strategy of obtaining the line through a tax-exempt donation -- the incentive to the donors being a potential $3.5 million tax write-off in lieu of revenue from a cash transaction. It was later determined, however, that a private donation to a private development corporation would not create the necessary tax shelter for the former owners. This, in turn, led project backers to draft two special bills enacted by the North Carolina State Legislature early in 1979 -- one creating a new quasi-public Graham County Development Authority (GCDA), and the other limiting the Authority's liabilities to the actual revenues it generated.

These legislative provisions -- enacted four years after the local railroad initiative began -- solved the problem of securing a tax-exempt donation, but they also spawned new complications with respect to the transfer of federal grant and loan commitments from GCDC (which first sought them) to GCDA (which was to have become its successor). The ensuing legal impasse over complex issues of ownership, accountability, and repayment in the event of default ultimately resulted in another 18 months of delays.

The project cleared its last major pre-construction hurdle in January 1981 with the closing of a $288,300 FmHA loan -- the final piece of what has now become a $1.8 million rehabilitation package involving grants from EDA, two state agencies, and several Graham County businesses. Contracts were awarded and construction commenced soon thereafter, and the project is now scheduled for completion in early 1982 -- seven years after it was initiated, and at a cost of almost five times greater than original estimates.

Structure, Key Actors, and Roles

Since 1975, the Graham story has involved a multitude of actors, both public and private, including:

- The John Veach family -- heirs to the railroad and owners of the operating charter at the time the line ceased operations in 1975.
- Western Carolina University's EDA-funded Economic Development Center -- staff helped conceptualize and have continuously supported the project since 1975.
- Tom Garden -- Robbinsville realtor and local Jaycee president when the Veaches and WCU staff first approached the county with a plan to sell and rehabilitate the railroad. For the past six years, Garden has been a tireless volunteer supporter of the project, and he has chaired both GCDC and GCDA from inception.
- Graham County Development Corporation -- incorporated in 1975 as the vehicle to acquire the railroad, obtain redevelopment financing, and oversee its operations.
- Graham County Development Authority -- a quasi-public development authority created by the state legislature in 1979 to facilitate the tax-exempt transfer of title to the railroad from its former owners.
- Graham County government and local businesses -- have expressed verbal support from the beginning and are shown on paper as being members of the two development entities named above. Neither government nor local businesses, however, played any formal role until early 1980, when several small cash contributions were provided as initial payments towards local matching funds necessary to secure a $1.1 million EDA grant.
- The Bear Creek Scenic Railroad -- a pre-1975 business venture seeking to operate a tourist attraction along a three-mile stretch of the Graham County Railroad line, but aborted at the time of the 1975 flooding. At that time, BCSR investors -- including an attorney for the Veach family -- defaulted on land purchase agreements with the railroad's heirs, but they have maintained options on properties adjacent to the Graham County line in hopes of reviving BCSR once the railroad is reopened.
- The State of North Carolina -- provided $100,000 in developmental funding through discretionary EDA grants and $285,000 from railroad rehabilitation funds administered through the State Department of Transportation.

- US Department of Commerce (EDA) -- has worked with project proponents since 1975 to assist railroad redevelopment with $1,107,000 in grants to GCDC.

- US Department of Agriculture (FmHA) -- has worked with project proponents since 1977 to facilitate a $288,300 FmHA secured loan to GCDC.

- National Railroad Utilization Corporation (NRUC) -- has signed a 25-year lease with multiple five-year renewal options for use of the rebuilt line and acquisition of the Graham County Railroad Company's operating charter.

- Project engineers, surveyors, and attorneys -- retained by staff of the WCU Economic Development Center to handle preliminary project engineering, site clearance, and preparation of construction specifications. Various attorneys employed by the Veach family and WCU have assisted in funding negotiations, title transfer work, the preparation of special legislation, and negotiation of the long-term lease agreements with NRUC.

- Southwestern NC Planning and Economic Development Commission -- a seven-county regional commission, SWPEDC was a strong supporter of the project initially, but its enthusiasm waned as costs escalated and other counties in the area became increasingly critical of what some observers perceived as an infeasible undertaking. Since 1979, SWPEDC has been an outspoken critic both of the project and its principal proponents, the WCU staff.

After more than six years of developmental activity, the project is still undergoing an organizational evolutionary process. It is now clear that the absence of a stable, clear-cut organizatonal structure has hampered project continuity and progress almost from the beginning.

Despite the existence of two legal entities (GCDC and GCDA) formed for essentially the same purpose, neither has played a substantive role in furthering the proposed project. Instead, it has been Western Carolina University's Center for Improving Mountain Living (CIML, which subsumed the former EDA-funded economic development staff) that played the central role in bringing the railroad project to fruition. In fact, it is now clear that without continuous support derived from CIML, the Graham initiative would have died long ago.

One Graham County businessman -- Tom Garden, a Robbinsville realtor -- has been instrumental to the project from the beginning, and has devoted huge amounts of time since 1975 to promoting, negotiating, and communicating on behalf of the railroad. But because neither GCDC nor GCDA had staff or administrative funds, Garden has had to rely heavily on CIML for administrative, clerical, and technical support -- assistance that CIML was always willing but sometimes unequipped to provide.

In retrospect, it is clear that the organizational approaches and management practices used for this project were not always ideal. In several instances, the complexity and fluidity of the project's organizational structure were largely responsible for lengthy and otherwise avoidable delays, and most project backers now agree that these arrangements were both unwieldy and generally unsuitable for replication elsewhere. Yet the fact remains that in Graham County, the approaches taken were chosen of necessity, because to project proponents they represented their only viable alternatives.

Funding Support

In 1975, rehabilitation costs were estimated at $400,000 -- a figure derived by WCU planners unfamiliar with railroad construction and later discarded by EDA as being unrealistically low. By 1979, when MDC's monitoring began, those estimates had increased to $1.2 million, but the October 1980 low bid for construction came in at just over $1.6 million, exclusive of pre-contract engineering, planning, and legal costs.

Although project planners had received tentative prior commitments totaling $1.4 million, they were faced during the final months of 1980 with the need to find additional funds before awarding their construction contract. After further negotiations, EDA agreed to add another $147,600 to its earlier $960,000 grant commitment; the original $240,000 FmHA loan application was increased by $48,300, and a $250,000 Federal Railroad Act commitment from the State Department of Transportation was upped by another $35,500.

Thus total project funding from state and local sources -- exclusive of local cash contributions -- now stands at $1,781,100, and includes $1,107,300 from EDA, $288,300 from FmHA, $285,500 from the State Department of Transportation, and $100,000 from the Governor's discretionary EDA funds.

In addition to these known costs, there are substantial hidden costs associated with developing and supporting any project of such magnitude over a six-year period. Although the combined direct and indirect costs of WCU staff time, WCU-financed legal assistance, and project administrative support have never been calculated, project spokesmen say those costs could easily have approached another quarter-million for the six-year effort. Yet, in all this time, no planning and development funds were available to Graham County other than the $100,000 state grant and a $5,000 contribution from the county.

Assessment

It is still too soon to predict what the eventual economic impact of the project may be, although it is clear that earlier claims concerning the employment-generating benefits of the venture were exaggerated to satisfy EDA grant requirements.

The National Railroad Utilization Corporation -- the proposed lessee/operator -- was expected to locate a boxcar-rebuilding facility in Graham County, for example, but has now dispensed with those plans altogether. Another unexpected setback was the closing earlier this year of the second shift at Burlington House Furniture -- the major manufacturing employer in a county whose unemployment rate already stood at 18 percent, and the proposed major shipper for the rebuilt line. If anything, the developments at Burlington clearly demonstrate that the firm's business fortunes are far more dependent on national economic conditions than the presence or absence of a convenient railway siding.

Finally, plans for resurrecting the Bear Creek Scenic Railroad -- a marginally profitable tourist venture that operated briefly in 1974-75 -- remain unsettled. BCSR's out-of-state owners now say they expect to decide shortly whether to reactivate the business or offer it for sale, and a BCSR stockholders' meeting has been scheduled to decide that issue in November 1981. Chances for BCSR's revival are rated as slim, however, if for no reason other than the additional $100,000 its stockholders must now provide in order to refurbish the line's rolling stock and tourist facilities after six years of disuse.

Despite its past and present difficulties, the project is nearing its completion stages. All funding commitments are intact, and the effort has suffered no additional setbacks as a result of recent federal budget cuts. Although there are no linkages with CETA or other employment and training programs, the project has generated temporary construction jobs for 28 people, most of them county residents. And, in the event that BCSR reopens, as many as 20 additional jobs could materialize. Finally, the railroad rebuilding effort has helped to coalesce local business and civic interests behind future developmental efforts. Planning continues for developing a county industrial site along the railroad right-of-way, and GCDA membership has recently become involved in seeking a North Carolina "Community of Excellence" designation for the Town of Robbinsville. If obtained, this designation should be an asset to the county's future industrial expansion prospects.

Although the Graham project is something less than a model for others to follow, it is nevertheless rich in lessons for those contemplating similar rural development initiatives elsewhere. And it confirms the fact that small rural communities face monumental obstacles that tend to impede progress and quash enthusiasm.

Clearly, the Graham County experience illustrates the need for intensive and technically competent assistance for any rural leadership group attempting such a complex undertaking. According to Tom Garden: "There's no way any working person or volunteer group could have ever come up with the time and knowledge to put this package together on their own .... and I'd hate to know the amount of money it's taken to get us where we are right now." And Garden readily concurs with MDC's conclusions that linking multiple resources in support of local rural initiatives is far more easily said than done; that small rural areas are unlikely to accomplish such efforts without considerable outside assistance; and that the likelihood of similar projects sprouting spontaneously in other localities is indeed remote. In fact, with the recent federal budget cuts, the chances of this project's being replicated today are practically nil.

"We've been flying by the seat of our pants from Day One", says Garden, "and no one at any level ever seemed to have final authority to approve a local project like ours. There needs to be some organization .... some place to turn for help .... before getting into something of this magnitude."

In particular, Garden feels that FmHA is a master of organizational obfuscation, and he still finds it difficult to understand why a $288,000 secured loan ultimately required a meeting he had to arrange with top agency officials in Washington before the loan was finally approved. "In short," he concludes "neither I nor the WCU staff had the expertise and understanding of venture planning or capital formation to take on all those agencies, regulations, deadlines, and narrow interests simultaneously. It's really sort of amazing that we've pulled it off at all."

Western North Carolina Tomorrow (WNCT)

General Description

Western North Carolina Tomorrow -- a public and private leadership council representing the state's 17 westernmost counties -- was organized in 1979 to heighten citizen participation in the formulation of future regional developmental policies and programs in a predominantly rural mountain area. Staff support for WNCT is provided through Western North Carolina University's Center for Improving Mountain Living (CIML), which began in the early 1970s as an EDA-funded Center for Economic Development. In recent years, however, CIML's major funding has come from state grants and private foundations; at present, the center's EDA grant provides only one staff position, while

CIML's remaining 15-18 professionals are supported from non-federal sources.

WNCT embodies the concept of a federal/state/local partnership designed to make optimal use of existing resources, and it is actively exploring an array of issues pertinent to rural development: jobs, land use, education, and transportation. Overall, the WNCT experiment constitutes a model for combining the technical resources of a regional university with the leadership of local elected officials and private citizens to devise and implement regional growth policies.

History

WNCT began in 1979 as a bold experiment in regional cooperation and unity -- one that sought to coalesce the area's business, civic, governmental, and political leadership in an effort to identify and resolve major problems that threatened to limit and diminish future growth and developmental potential. In launching the new effort, however, university officials and other project proponents apparently underestimated the extent to which their efforts were either poorly understood or adamantly opposed by several substate regional planning organizations and units of local government which perceived the university as an unwanted interloper in regional planning and decision-making.

As early as August 1978, one such multicounty planning and economic development commission had adopted and circulated a policy resolution opposing the university's "attempt to achieve primary involvement in the community and economic development of the area through creation of a 'Center' for this purpose, and by employment in this center of community and economic development specialists, planners, and grantsmen to implement these policy decisions."[1] In the commission's view, the proposed university role would be duplicative of its own statutory and policymaking responsibilities -- not to mention a possible threat to the future of substate regional planning organizations themselves.

Tensions escalated in 1979 when CIML's former director assumed responsibility for introducing WNCT to area planning commissions and local elected officials. Those initial meetings proved counterproductive; they were construed by many local elected officials as being unduly critical of "the leadership vacuum" in the area -- an observation which, even if correct, could hardly be expected to generate enthusiasm for WNCT when being presented to incumbent local leaders by an individual without roots in the area. Following a storm of protests, CIML's former director was assigned early in 1980 to new duties with an international development project, and university officials adopted new strategies intended to give local governments and substate planning organizations a more substantial role in WNCT decision-making.

Throughout most of 1980, a university vice-chancellor and CIML's new acting director -- a senior CIML staff associate with prior experience on the staff of a popular local Congressman -- both devoted considerable effort to restoring WNCT's credibility throughout the 17 counties. Their efforts have succeeded in silencing the critics and neutralizing the earlier opposition from the multicounty planning commissions. Even so, current relations between WNCT and the planning commissions can only be characterized as "polite," although ambivalence on the part of the planning groups is far preferable to the resistance they demonstrated initially.

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[1] The "center" referred to here was CIML, which had already subsumed the university's former EDA-funded economic development staff and at the time was providing useful technical assistance services (business management, computer science, environmental management, etc.) to numerous local governments and small businesses throughout the area.

While university leaders grappled with restoring CIML's credibility and finding a new permanent director, CIML staff turned their attention to the orientation and organization of WNCT's 55-member board and to the substantive work of the new leadership group. By the latter half of 1980, WNCT subcommittees were formed and, as described below, work began in four content-areas: employment opportunities, education, natural resource conservation, and regional pride. Major issues were identified, regional conferences were convened, special research efforts were launched, and proposals for funding support were developed: In short, the foundations were laid for future work designed to produce tangible products.

The search for a permanent director for CIML was concluded in June 1981 with the appointment of the former deputy executive director of CARE, Inc. -- an international relief and assistance agency. Soon thereafter, the individual who had served as CIML's acting director for almost a year was named permanent director for WNCT.

Staffing and Funding

Organizationally, WNCT is attached to Western Carolina University's Center for Improving Mountain Living -- a university-based research and technical assistance organization which evolved from (and ultimately replaced) the school's former EDA-funded Center for Economic Development. CIML currenly has a full-time professional staff of between 15 and 20 employees, the actual numbers dependent on work in progress and assignments among and between other university departments. On staff, WNCT has the equivalent of six full-time positions. The actual number of CIML staff working on WNCT activities is somewhat larger, however, because several individuals are used interchangeably for both CIML and WNCT assignments. Thus WNCT's staff complement presently includes its director, an economist, four staff associates assigned to the four WNCT subcommittees, and three part-time administrative aides.

Because of the multiplicity of funding sources and overlap of funding cycles for various activities, it is impossible to cite a precise annual funding level for WNCT. According to staff estimates, however, WNCT's current resources amount to roughly $200,000, exclusive of the university's no-cost contributions of office space, utilities, secretarial support, and administrative overhead. Non-university grant support is derived primarily from the Z. Smith Reynolds Foundation, with the remainder obtained from the Governor's Office through a special modification of the university's Appalachian Regional Commission grant for preliminary work on a mountain culture center in the region.

Functionally, the WNCT staff supports the work of the 55-member leadership council which has the preeminent role in assessing regional needs and formulating future policies and program initiatives. And, while the WNCT board is officially designated as an advisory body only, it thus far has functioned as a semiautonomous entity whose decisions are binding upon CIML staff and the university. At present, WNCT's staff director has full responsibility for managing staff and board activities more or less independently of CIML and its new executive director.

Current Activities

As noted earlier, the 55-member WNCT board is organized into four committees concentrating on employment, education, natural resources, and regional heritage. During the past year, objectives and work plans were developed by each committee and approved by the full board.

The Natural Resources Committee, for example, has concerned itself with land management and developmental planning, water supply and wastewater disposal, mineral resource development, and anti-litter "bottle bill" legislation, while the Regional Pride Committee has sponsored a high school essay contest with scholarships to winners provided through a scholarship pool formed by 13 area colleges and universities. In addition, the latter committee held a summer retreat for the fifty finalists in the 1981 essay contest, installed a Mountain Studies pilot program in one area school system, and developed an inventory of regional agencies and organizations concerned with mountain heritage and cultural preservation.

The Education Committee has embarked on a continuing series of meetings with secondary and post-secondary educators throughout the region to determine their views and identify the most pressing educational needs of the area. From this effort has come a new spin-off group called the Council of Presidents -- a WNCT-sponsored organization of university and college presidents in the 17 counties. The Council has held two meetings of its own to discuss how post-secondary institutions and WNCT can work together to further the educational development of the region, and it has formed a research subcommittee to study in depth the pervasive and persistent dropout problem in western North Carolina's public schools. Finally, the WNCT Education Committee has initiated a series of meetings with public school superintendents in the 17 counties to discuss the needs of exceptional children, relations between the schools and the courts, educational funding, and cooperative programs between secondary schools and post-secondary institutions.

The performance of WNCT's Employment Opportunities Committee has also been impressive. Concerned that western North Carolina still lags behind the rest of the state in the number and quality of jobs available and in average wages, the committee compiled regional economic data and conducted a 17-county survey on perceived obstacles to expanding job opportunities. A major committee concern has been the region's paucity of economic development expertise. And, through committee action, funds to hire a regional economist were sought and obtained from the Office of the Governor.

The new economist assumed his duties in July and is currently working on five developmental projects, including a prototype TVA-assisted economic development plan in one underdeveloped western county, a directory of regional economic development organizatons and activities, an analysis of the decision-making process used by private firms in determining where to locate, an analysis of the components of employment change in the region, and a technical guide to assist local governments and community leaders in formulating their own industrial recruitment and economic development strategies.

Assessment

While the tangible results and products of the WNCT initiative are relatively few in number, the accomplishments to date are by no means insignificant. Considerable progress has occurred, and the stage is set for substantial achievement in the future.

Clearly, the past two years were devoted largely to establishing an autonomous board of regional leaders, cultivating consensus on issues and the belief that WNCT's efforts were worthwhile, and creating a vehicle to serve as advocate and catalyst for healthy regional development. In pursuing those broad goals, university staff and WNCT members have discovered the inherent dangers in attempting to build such an organization and gain widespread acceptance for it -- particularly when the new effort is perceived as a threat to older, more established entities whose goals and responsibilities are undeniably similar, but whose scope may be considerably more restricted.

Undoubtedly, WNCT's potential impact was diminished -- if only temporarily -- by the manner in which it was first introduced to many of the individuals and organizations whose support was crucial to the eventual success of the overall effort. University officials have made sincere efforts, however, to allay the concerns of WNCT's former detractors, and they have succeeded in gaining at least acceptance, if not spirited cooperation.

With turf issues largely resolved, a new director on board, and a clear-cut agenda before it, WNCT now seems ready to fulfill the expectations of those who first conceived it. As a result of recent federal budget cuts, the continued existence of North Carolina's network of 18 substate regional planning and development organizations is now in doubt. Federal funds for programs currently planned or administered by these multicounty regional groups (CETA, EDA, and Appalachian Regional Commission, for instance) are being cut substantially or eliminated altogether, and there is little to suggest that funds to replace these federal losses can be obtained from state and local sources.

At the same time the influence of these Lead Regional Organizations is diminishing, Governor Jim Hunt has announced the creation of a blue-ribbon state commission charged with preparing for the state's future growth and development. This commission -- North Carolina 2000 -- is charged with assessing current needs and recommending new policies and strategies to enable the state to prepare now for the demands of the 21st century. WNCT was represented at the state's first meetings to discuss North Carolina 2000, and its staff and board have been invited to comment on the work of this new commission as it pertains to the 17 westernmost counties.

Given the likelihood that a relatively inexpensive university-supported organization such as WNCT might indeed survive and prosper despite the withering effects of federal cutbacks on other existing grass roots planning organizations (there are presently four LROs serving the same 17 counties as WNCT) -- and the clear indication, at least in North Carolina, that organizations such as WNCT will be called upon to help shape and articulate new statewide growth and development policies -- the future of Western North Carolina Tomorrow continues to be promising. The organization has established the leadership base essential to its success and has already embraced the concept of planning for the year 2000 as a welcomed opportunity to undergird and reinforce the work of its four existing committees.

The WNCT experience offers a number of useful lessons for others concerned with rural development -- and with devising new ways to tackle old problems. First, we have seen that such efforts can indeed materialize without enormous investments of federal dollars. In this instance, foundation grants and university contributions of space and administrative support have largely sustained WNCT from its inception; state and federal funding have been minimal, and much of CIML's administrative overhead has been offset by revenues generated from the organization's business and local government technical assistance activities.

WNCT's experience suggests that in sparsely developed rural areas, it does make sense to create regional development organizations by pooling resources and coalescing bipartisan political and business leadership support behind efforts designed to serve the greater public good. But it also underscores the importance of handling the creation of any such entity with considerable care and forethought concerning the implications for agencies and organizations already responsible for local planning and developmental affairs.

In rural areas, in particular, it seems almost imperative that those responsible for securing the acceptance of local government and business leaders possess not only the technical skills but also the social and communicative skills to generate support rather than suspicions. Faulty handling at crucial early stages can lead to needless complications and may do irreparable harm to the eventual success of the effort.

Finally, we can conclude that an effort such as WNCT's requires both the nurturing of an established and respected organization -- in this case, a regional university -- and sufficient lead time for ideas to jell and new concepts to take hold before major action-oriented projects are attempted or tangible results expected. Building credibility, trust, and support is a process which requires both time and patience, and one in which there appear to be few, if any, shortcuts.

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MAINE

I. INTRODUCTION

Overview

Maine's 1979 per capita personal income of $7,057 ranked it 46th among the states. Its 1.1 million people are relatively dispersed: there are only two SMSAs, and only 50% of the population live in cities or towns of 2,500 or more.

Maine's economy has historically been based on six industries: textiles, lumber and wood, paper, leather and shoes, agriculture and food processing, and shipbuilding and transportation equipment. These industries have been in somewhat of a decline in recent years, but they continue to dominate the state's economy. Manufacturing employs a high percentage of the population, and the top six industries continue to account for 77% of the state's manufacturing employment. Nonmanufacturing employment sectors (trade, services, medicine, government) have been expanding over the past 20 years, and new manufacturing categories, such as electronics, have begun to be felt.

There is a wide disparity between the economic well-being of urban Maine and rural Maine. The state divides itself geographically into four regions, of which three are extremely rural and one is more urbanized. The highest income area is the urban "corridor," so named because it is bisected by the state's only interstate highway; it is in this region that most of the recent economic growth has occurred. Maine's western, eastern, and northern regions are characterized by dispersed population, low income, and high unemployment. In 1980, for example, when the statewide unemployment rate was 7.8%, the rate in the corridor area ranged between 4% and 7%; in the more rural areas of the state, it was 10%, 11% and 14%.

Each of Maine's rural regions has its distinctive characteristics. The western part of the state is sparsely populated but has a relatively high proportion of employment in manufacturing. The dominant industries are natural resource-based -- wood, paper, lumber, leather. Eastern Maine is poorer and even more rural, despite the growth of second-home communities along the coast over the past ten years. The area's dominant industries -- all struggling -- are fishing, poultry, and food processing. Northern Maine is the poorest and most sparsely populated part of the state. The only industries of note are wood products and potato farming.

Maine realizes it has several disadvantages in competing for industry. It is far from markets, energy is expensive, and the cost of living is high. Moreover, low personal income levels produce a relatively low level of savings in the state, which equates to a small amount of local capital available for investment. The state does have several characteristics which it uses to court industry: a strong work ethic (combined with low wages and a low rate of unionization); abundant natural resources; a beautiful, unspoiled environment; state-sponsored financial incentives; and 43 industrial parks looking for tenants.

Maine has a small (seven employees) State Development Office which is part of the Governor's staff. The office recruits new industries by publishing information on Maine, advertising the state in national magazines, and taking industrial prospects on site tours. It also offers grants to communities to help them market industrial parks and operates a small business assistance hotline.

The state also has a Planning Office which prepares reports and policy documents on a wide range of topics, including economic development. Additional economic development planning has been carried out by the Governor's Committee on Rural Development, an interagency committee including representatives of FmHA, state and local agencies, and the state legislature.

State Rural Policy

Both the State Planning Office and the Committee on Rural Development have published documents identifying key economic development issues and strategies for the state. Although the two bodies started with different perspectives (one focusing on economic development, the other on rural development), their conclusions were similar: Maine's problems with economic development are tied closely to the rural character of the state, and its development opportunities will be, in large part, based on its natural resources.

The Planning Office has highlighted five economic development issues, most of which bear on the rural portions of Maine: development of natural resource-based industry (including wood, paper, agriculture, fishing, wood energy, aquaculture, and deepwater ports); more equitable distribution of jobs throughout the state; development of new, high-growth, high-skill industries; environmental preservation; and maintenance of public services without raising taxes. The Rural Development Committee has identified a number of development strategies for rural Maine, emphasizing small-scale, natural resource-based activities such as farmland preservation, cooperative marketing to increase the profitability of family farms, development of facilities to generate ethanol and methanol, and state aid for expansion of the secondary wood products industry.

To some extent, then, rural policy and economic development policy converge in Maine. This is partly because of the state's wealth of natural resources, which have not been utilized to their full potential (or to the full benefit of the state); and partly because of the state's competitive disadvantage in developing other types of industries.

Programs Studied

This case study focuses on the Maine Development Foundation (MDF) and its sister organization, the Maine Capital Corporation (MCC). The Maine Development Foundation was selected for examination because of the unique public-private partnership it represents: it was created by the legislature, it is guided by a board of public and private members, and it is supported by both state appropriations and private funds. MDF is also unusual in its sectoral approach to economic development, which focuses on a small number of industries with growth potential. While MDF does not specifically target rural areas, its work has had an impact on rural Maine -- three of its four major projects to date have involved natural resource development or agriculture.

The Maine Capital Corporation, a for-profit investment agency, was established to provide capital for ventures developed by MDF.

MCC is only a year old, but it is discussed briefly in this case study.

II. RURAL DEVELOPMENT PROGRAMS

Maine Development Foundation

General Description

The Maine Development Foundation is a private nonprofit corporation established by the legislature to generate economic development activity in Maine. It performs some functions that are normally handled by state agencies in states that have fully staffed development departments, such as helping communities develop and market industrial parks, packaging capital for expanding businesses, and administering the Trade Adjustment Assistance Program. MDF also goes beyond these functions to act as instigator and catalyst for major development projects in Maine, and it provides deal packaging and investment management for the Maine Capital Corporation. MDF sees itself as a public entrepreneur which explores opportunities for economic development and makes them into realities.

MDF was created in 1978 on the recommendation of a task force on economic development appointed by the Governor. The Governor at that time was a political independent whose background was in business; he had abolished the state's economic development agency, believing that development promotion should be directed by business leaders rather than bureaucrats or politicians. He appointed a task force of prominent businesspeople and bankers who conceived MDF and MCC, and their recommendations for the creation of the two institutions were readily accepted by the legislature. Under the Governor's plan, the public-private MDF was to have a decided emphasis on the private side; a prominent corporate executive was hired as its first director.

Shortly after MDF became operational, a new Governor was elected. He reinstated the State Development Office (though he kept it small), and he gave MDF a slightly less private sector image by appointing a former Peace Corps volunteer and city planning official as director. Still, MDF has retained much of its private sector flavoring and orientation.

MDF is controlled by its 230 members, or corporators. Approximately two-thirds of the corporators are representatives of private business; the remaining one-third represent local government, universities, and other public organizations. The corporators elect 12 members to MDF's board of directors -- seven private sector representatives and 5 public sector representatives -- and the Governor appoints two additional members. While the board sets policy and direction for the MDF, staff takes the initiative in selecting specific economic development projects to work on. There are five core staff members: one runs the Trade Adjustment Assistance Program; one serves as staff to the Maine Capital Corporation; one serves as liaison with corporators and is responsible for fund raising; another works with local development corporations to market industrial parks and help them package financial deals; the fifth is MDF's president. Consultants are hired to work on many of MDF's projects.

MDF has three sources of administrative funding: contributions from corporators, matching funds (equal to the first amount) appropriated by the state; and contracts for services. This year, the total budget was $430,000. Approximately $120,000 came from corporators, $120,000 from state matching funds, and $190,000 from contracts. Private sector corporators must contribute at least $250 per year, and public corporators, $50 per year. Many private corporators in fact give more -- 24 contributed over $1,000 this year, and another 25 gave between $500 and $1,000. MDF's contracts come basically from two sources: the Maine Capital Corporation has contracted with MDF to package deals and manage investments, and state agencies have hired MDF to perform research and planning for economic development projects.

The president of MDF believes that this tripartite funding arrangement has much to recommend it. State funding depends on corporator contributions, and corporator contributions are a measure of how effective the corporators believe the organization to be. The funding system also enables MDF to leverage state funds for projects requested by particular industries. One of MDF's projects this year, for example, involved research and advocacy aimed at a revitalization of Maine's poultry industry. The project was initiated by several corporators from poultry-related businesses who made extra contributions to MDF specifically for this project.

In 1980, its first full year of operation, MDF concentrated on three objectives: working to develop key industries with high value-added production processes (secondary wood products, fishing, poultry); providing leadership to put MCC in place; and helping individual companies and communities with planning for industrial expansion, business assistance, and community development.

In 1981, MDF has revised its priorities. It has placed less emphasis on assisting individual businesses and communities, concentrating instead on four major development projects -- continuation of its work with the wood products, fishing, and poultry industries, and development of a deepwater port on the Maine coast. The corporation is also continuing to administer the Trade Adjustment Assistance program and to provide staff services for MCC. The four major projects are described below.

Project Descriptions

Fisheries Project -- This project was undertaken in conjunction with the State Department of Marine Resources, the State Development Office, and the groundfish industry in Maine. The objectives were to increase sales of fresh groundfish and to increase the in-state processing of fish. In 1980, MDF established a Groundfish Industry Development Team composed of business executives from Maine's fishing industry, bankers, food processors and marketers, and state officials. The team determined that the industry's growth was being limited by a lack of quality control and inadequate marketing. The team asked MDF to help the fishing industry with new marketing initiatives, and it asked the State Department of Marine Resources to develop a quality control program. MDF hired a consultant to organize a marketing experiment in Maine during the summer of 1981 and plans to expand the marketing system to other states in the future. MDF is also planning to assist three fish processing ventures start up or expand this year.

Wood Products Project -- This project was undertaken through a contract with the State Development Office, which had long been interested in diversifying Maine's wood products industry. The motivation behind the project was similar to that of the fisheries project: Maine exports a tremendous amount of wood products without reaping the value that could be added by in-state processing of those products. During 1980, MDF surveyed the state's wood products industry with the goal of pinpointing 10 specific and feasible "opportunities" -- firms interested in locating in Maine, Maine companies interested in diversifying, or viable ideas for new wood products ventures.

Initially, MDF held discussions with forest products companies within and outside Maine to discuss the potential for manufacturing a variety of products ranging from business forms, envelopes, and greeting cards to furniture, cabinets, and specialized wood products. After identifying potential business opportunities, MDF presented its ideas to specific manufacturers and convinced key paper company officials in the state to help mount an aggressive campaign to approach manufacturers elsewhere in the country. So far, one printing company has agreed to build a plant in Maine as a result of MDF's work, and other deals are being negotiated.

Poultry Project -- This project was requested by the state's poultry industry, which was faltering partly because of the high cost of feed. In 1980, industry leaders asked MDF to study the feasibility of constructing a centralized storage facility in an attempt to bring down grain costs. If the results of the study were positive, MDF was to attempt to secure financing to carry out construction of the facility.

During the course of the feasibility study, however, three of Maine's four principal poultry processors went bankrupt, and the industry was thrown into turmoil. Consequently, MDF conducted a broader-based study of the poultry industry than it had originally planned, and it devised an overall strategy for helping the industry become operational and competitive again. It found that the industry's most pressing problems were poor management and the lack of equity, and it determined that these problems could be solved only by attracting new investment or new ownership for the ailing poultry plants. This summer, with the support of the State Development Office and the Governor, MDF sent a promotional package to 300 potential investors all over the country. The State Development Office will assume the effort from now on, following up leads generated through the promotional mailing.

Searsport -- MDF's fourth major project in 1980-81 has been the development of a cargo port and industrial park on an island off the central Maine coast. In this effort, MDF has acted as the catalyst and coordinating force to bring together private developers and state agencies, to secure financing for the project, and to recruit industry for the park.

Relationship with the State

MDF has an excellent working relationship with state agencies and enjoys the strong support of the Governor. The State Development Office uses MDF as a resource for performing studies, developing projects, organizing industrial task forces, and industrial recruiting.

One reason for the close and noncompetitive relationship between MDF and the state agency is that the State Development Office is limited in function and has only a small staff. Staff at both MDF and the State Development Office agreed that in other states, where a state development agency is responsible for many of the functions carried out by MDF, an organization like MDF might find it harder to stake out a turf for itself.

MDF has nurtured a strong relationship with the state administration by choosing projects that the Governor and the state agencies support. Development of the state's fishing industry, for example, was a high priority of the Governor's, and the wood products project was requested by the director of the State Development Office. Additionally, MDF has been careful to select its projects for geographic balance; it has worked with industries that affect the economy of nearly every part of the state.

Assessment

Although MDF is relatively new and can claim only a limited actual impact to date, it is already looked to for leadership in state economic development efforts. This status is a result of three MDF attributes: the ability and political acumen of its staff; its close ties to centers of power in Maine's business community and state government; and its clearly conceived, focused approach to economic development.

MDF's staff members have solid backgrounds in both the public and private sectors. Staff includes a former advertising executive, a Dean of the American Economic Development Council's summer Economic

Development Institute (the basic training ground for developers from all over the country), and a former planning director for one of Maine's larger cities. One reason for establishing MDF as a private nonprofit agency rather than as an arm of state government was to enable the organization to pay salaries competitive with the private sector; and this is undoubtedly one reason MDF has been able to attract and keep highly competent staff.

MDF's structure and history are responsible for its influence with leadership of both the private and public sectors. From the start, MDF was supported by the state's industrial and banking leaders; in fact, they dominated the task force that conceived the organization. The corporator structure insures that private contributors will have a continuing influence on MDF, and some of the state's largest firms have become corporators. There is a real potential, in fact, for MDF to become simply a creature of private industry interests; several poultry firms became corporators, for example, expressly to leverage state money for the MDF poultry project. This potential for private sector domination, however, is balanced by the public representatives on the board, including two gubernatorial appointees. From the start, MDF has maintained the strong support of the Governor and the State Development Office as well as the private sector.

MDF's approach to economic development so far has been sectoral, centering on identification of industries whose potential is unrealized in Maine. In two cases, MDF has focused on gaps in the utilization of natural resources (forests and fish) and sought to stimulate enterprises that could increase the value of these resources before they leave the state. In another case, MDF set out to revitalize a faltering industry; and in a fourth case, to develop a major port facility which could have far-reaching impact on the state's economy. In general, MDF has tried to maximize its impact on the state by concentrating its efforts on a small number of projects that could affect entire industries.

Since MDF's funding comes from a large number of small contributions (matched by state appropriations), the agency is in a good position to weather a period of federal budget cuts. Fund raising, however, is a constant activity, with one staff member spending most of his time meeting with corporators and seeking new contributors. Moreover, MDF currently finds itself in a somewhat uncertain position with respect to funding. After contributing for two years, some corporators feel that they have done their share, and MDF will have to convince them that its activities merit their ongoing support. Due to federal cutbacks, contracts with state agencies (which accounted for nearly half of MDF's funding this year) will be harder to come by, as will funding for the implementation of capital outlay projects MDF recommends. Still, when compared to organizations that are supported solely by public monies, MDF's future looks promising.

As discussed, it might be hard to replicate MDF in states that have complete economic development departments, since some of MDF's functions would overlap with those of the state agency. It seems, however, that MDF's approach to development is one that many states could use, and one that most state departments do not offer. MDF acts as a project initiator, catalyst, and link between the public and private sectors, and its independence allows it to be creative. Its innovative funding mechanism forces it to be responsive to both private corporators and state government and to show results.

Maine Capital Corporation

General Description

The legislature created MCC to provide a source of financing for projects initiated by MDF. The legislature authorized MCC to issue $1 million in stock as a for-profit corporation and offered a 50% state income tax credit for investments in the corporation. MCC is licensed by the SBA as a Small Business Investment Corporation (SBIC), which gives it access to an additional $3 million in SBA funds for equity investments and long-term loans. The legislature placed only two restrictions on MCC's activities: It must invest only in in-state business ventures, and two of its board members must be appointed by the Governor. (The other seven are elected by the stockholders.)

MCC became operational in September of 1980 when it had sold $1 million in stock to 32 investors and obtained its license as a federally chartered SBIC. Many of the stockholders are savings banks and other financial institutions, joined by some companies and individuals. In its first year of operation, MCC has had no staff of its own. Since its main purpose was to finance deals generated by MDF, it has contracted staff functions to MDF.

A number of observers maintain that MCC has not proved to be an appropriate finance institution for most of the ventures assisted by MDF. Since MCC's board is dominated by representatives of savings institutions -- conservative investors by nature -- the board has favored relatively large-scale, low-risk investments that promise a fast return. Many of the investment opportunities identified by MDF -- those in the poultry and wood products industries, for example -- have not met those criteria.

MCC made its first investment this summer. The target was a company that assembles computer components which is moving from Boston to rural Maine. The company is expected to hire 23 workers initially and 100 eventually. The deal was proposed to MCC by the SBA, which was guaranteeing a loan made to the company by a local bank. MCC completed the financing package by taking an equity position in the company and providing subordinated debt.

During MCC's first year of operation, it has become clear that MCC and MDF have essential differences in structure and outlook that make it difficult for the two bodies to work together. MCC is a for-profit corporation, responsive to the financial concerns of its investors, while MDF has a broader public mandate. Because of the minimal relationship between MDF and MCC activities, MDF is now urging MCC to hire its own staff. The staff person could be housed in MDF's office but would have separate responsibilities and would report directly to the MCC board.

Assessment

In its first year of operation, MCC's impact has been limited. Its conservatism is characteristic of the behavior of SBICs, particularly in their first few years when they have to prove their financial viability to investors. In this case, though, one would have hoped that the state's promise of a 50% tax credit to MCC stockholders would have helped the corporation overcome the tendency to be conservative.

In the short run, MCC's future is secure -- it still has most of its initial funding for investment, and it is not dependent on outside funds for administration. After it has invested its initial assets, MCC will have two options: It will have to issue additional stock (presumably without the bonus of the 50% tax credit), or wait until its first group of investments returns enough money to fund new ventures. Either way, MCC might experience a slow period, with little activity.

It is too soon to assess MCC's usefulness as a partner to MDF. Like many new financing institutions, MCC has experienced a slow first year, making only one investment. It is clear, however, that if MCC is to provide significant support to MDF, it will have to overcome some of its initial chariness and conservatism.

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MASSACHUSETTS

I. INTRODUCTION

Overview

The State of Massachusetts is unique in its support for community-based economic development and its widespread network of local community development corporations (CDCs). Although the state is predominantly urban, it is included in this study for two reasons: to present a community-based approach to economic development and document a state's support for that approach; and to allow consideration of how institutions in an urban state can serve rural areas.

The case study begins by describing the character of rural Massachusetts, the CDC approach to economic development, and the evolution of a rural CDC. It then discusses two of the state's institutions that were created specifically to support community-based economic development.

One-half of Massachusetts' population lives in the Boston SMSA, and fully 85% reside in metropolitan areas. Outside the Boston SMSA, there are five cities with populations of 100,000 or more and numerous smaller cities. The state's economy is characterized at once by growth in some geographical areas and industrial sectors (the microelectronics industry, for instance, is booming in the outskirts of the Boston SMSA) and by distress in others (primarily inner cities, rural areas, and small cities). The western one-third of the state is the most rural region and includes some of the state's lowest-income communities; it is on that area that this report focuses.

While parts of western Massachusetts once had a strong industrial or agricultural base, much of the land is now forested, and many of the mills have been abandoned for years. Population dropped steadily from the mid-nineteenth century until the 1950s, but has been growing since then. Many Bostonians and New Yorkers have built second homes in the area, and there has been a steady in-migration of year-round residents as well. Many of the latter were drawn to the area by its numerous colleges and universities, and they tend to be well-educated. This pattern of in-migration has been particularly notable over the past 15 years.

Although the state is compact and most of western Massachusetts is within a two- to three-hour drive of Boston, many residents of western Massachusetts tend to resent and mistrust state government. Most state programs are designed with urban areas in mind, and western residents believe that bureaucrats, urban creatures themselves, have little understanding of the special problems of rural Massachusetts.

CDCs in Massachusetts

The community development corporations discussed in this report are private nonprofit organizations created by residents and businesses of low-income areas for the purpose of upgrading their communities. Some CDCs have been formed in response to a specific crisis affecting the community -- e.g., the threat of mass demolition from urban renewal or highway construction; others have evolved from more general needs to create local jobs, improve housing, or expand local commercial activity or social services. The rationale behind most CDC activity is that areas shunned by the private sector (inner-city neighborhoods that have lost their retail facilities, or rural areas that have lost manufacturing jobs) require a joint public-private effort to revive the economy.

Massachusetts has some 40 CDCs. Perhaps half of them have been in existence since the 1960s or grew out of well-established community organizations, while the others came into being recently in response to investment capital furnished by state government. To qualify for a share of this capital, a CDC must be located in a low-income area, have membership open to all community residents, and have a board elected by its membership. And in addition to these formally constituted CDCs, there are many other community-based organizations in Massachusetts -- community action agencies, neighborhood associations, cooperatives -- that are involved in community economic development projects. Taken together, these organizations constitute a wealth of potential for community-based economic development.

CDCs and other community-based organizations are much more prevalent in Massachusetts' cities than in its rural areas. There is a tradition of community organization in the cities, strengthened in some cases by the existence of close-knit ethnic neighborhoods and in other cases by a politically sophisticated, well-educated population. A variety of neighborhood struggles against city hall in the 1960s and early '70s also fostered the formation of community-based organizations in urban areas.

In the past few years, though, a number of CDCs have sprung up in rural Massachusetts, assisted by the availability of state funding. One example is the Hilltown CDC, created in 1981 as an outgrowth of a planning project initiated by the Center for Rural Communities at the University of Massachusetts. A discussion of the evolution of the Hilltown CDC should serve to give a feel for economic development issues in rural Massachusetts and for the kind of organization that the state support network assists.

Hilltown CDC

The Hilltown CDC's target area consists of 9 Hampshire County towns (called "the Hilltowns"). The towns have a total population of 9,047 and a median family income which is well below the state median. Unemployment is high (9% in January 1979), and most people who work commute 15 to 25 miles to jobs in larger towns outside the Hilltown area.

The Hilltown planning project was originally funded by a FmHA Section 111 grant in 1980. Staff of the project conducted interviews and held meetings with over 300 area residents to identify local concerns and formulate recommendations on "meeting Hilltown needs on Hilltown terms." The project compiled information on the local population, natural resource base, and business community, and published a business directory to encourage residents to patronize local merchants and service providers.

During the planning process, Hilltown residents identified job creation as a high priority, but they placed an equal emphasis on preservation of the area's rural character. These concerns led to the recommendation of several economic development strategies appropriate to the area: forest management, expansion of local agriculture, promotion of small-scale tourist and recreational activities, development of more economical means of transportation, and expansion of the small business base which currently provides about 1,600 jobs in the area. A further recommendation was for reducing "leakage" in the local economy through energy conservation and local production and purchase of goods and services. At the close of the Hilltown planning project, a group of residents formed a CDC, believing it could be a vehicle for implementing many of the recommendations that had emerged from the planning phase.

The Hilltown CDC obtained funds from the state in the spring of 1981 to hire a staff person for one year, and it set out to define goals and priorities. The CDC is currently interested in pursuing three approaches to job creation. First, it wants to help small local businesses through workshops, business counseling, and perhaps a revolving loan fund. (The CDC has already held one small business workshop on product marketing and mail order techniques; it was attended by craftspeople, retailers, and farmers.) Second, it wants to foster the start-up of new ventures by helping entrepreneurs obtain capital. And third, the CDC hopes to renovate an old mill, known as the Brassworks, into a facility which will house a museum and industrial and commercial space for small businesses.

In addition to business development, the CDC is addressing itself to community development services (transportation and child-care), natural resource development, and promotion of political cooperation among the nine Hilltowns. And while it is pursuing these ends, the CDC is in the process of building up its membership and local support. Membership includes both native Hilltowners and more recent arrivals to the area, though there seems to be a disproportionate representation of the in-migrants, many of whom are craftspeople or small business owners.

Programs Studied

The State of Massachusetts created its CDC support system partly to make local economic development organizations like the Hilltown CDC more effective and partly to encourage more community economic development activity. In 1977, the Community Development Finance Corporation (CDFC) became operational, and, soon after that, the Community Economic Development Assistance Corporation (CEDAC) and the Community Enterprise Economic Development program (CEED) were begun. Together, the three are designed to provide a complete package of services for community economic development: CDFC offers financing, including equity financing, for business ventures in which CDCs are involved; CEDAC offers technical assistance and capacity-building services; and CEED funds staff positions for CDCs.

This case study focuses on two of these three programs -- CDFC and CEDAC.

II. RURAL DEVELOPMENT PROGRAMS AND INSTITUTIONS

Community Economic Development Assistance Corporation

General Description

CEDAC is a quasi-independent state institution, created by an act of the legislature and governed by a board appointed by the Governor. CEDAC's purpose is to provide technical assistance to and help build the capacity of CDCs and other community-based organizations that are involved in economic development activities.

Although CEDAC has no fixed source of funding, it has maintained an annual budget of approximately $350,000 during its first two years of operation. It has received Governor's discretionary CETA monies, EDA funds, legislative appropriations, special contracts for operating research and demonstration programs, and contracts from CDFC to provide services to CDCs.

CEDAC's structure is new and still evolving, but the agency currently provides three types of services to community-based organizations: developmental assistance, project-specific technical assistance, and topical training sessions. In the developmental assistance program, CEDAC staff work intensively with a small number of newer CDCs on the design of economic development strategies, including goal setting, determination of objectives and priorities, and project planning. In the project-specific technical assistance program, CEDAC contracts with consultants to perform specific tasks for community organizations -- venture-feasibility studies, marketing plans, management analysis, or other services. Finally, CEDAC conducts five or six special-purpose training sessions each year for staffs and boards of community-based development organizations. Training topics include financial analysis (a 3-day workshop), revolving loan funds, marketing commercial space, UDAG grants, and cable television franchising.

In addition to its direct services to CDCs, CEDAC commissions research on matters related to community economic development. One such research effort, aimed specifically at rural Massachusetts, was a study of "Opportunities in Agricultural Development in Massachusetts," which recommended activities that CEDAC might initiate to help the state's small farmers.

Program Administration

CEDAC has a staff of four full-time professionals, which it supplements with consultants and student interns. Staff is based in Boston, but it serves western Massachusetts as well as the cities in the eastern and central parts of the state. CEDAC's commitment to provide developmental assistance to the Hilltown CDC, for example, means that a CEDAC staff member spends at least a day every other week in the Hilltowns. A major impetus to CEDAC's rural effort is a CEDAC board member who is a strong advocate of rural development and has a good knowledge of development activities and organizations in western Massachusetts.

CEDAC has used a variety of methods for allocating resources within its services. It hears requests for project-specific technical assistance at each board meeting and judges requests non-competitively on the basis of individual merit. This system enables CEDAC to respond quickly when quick response is needed. This is the first year that CEDAC has offered intensive developmental assistance, and it has done so through use of its own staff. CEDAC determined it could work intensively with a maximum of three CDCs, so it issued a competitive RFP to identify CDCs that were ready to make the best use of its help. A third method was adopted for allocating resources for board training. CEDAC set aside a specific fund for board training since many CDCs had asked for such help. Rather than staging a competition for the training funds, CEDAC offered small entitlement grants to all CDCs in the state. A CDC had only to fill out an application and submit it as a voucher; CEDAC staff would then develop a training package to meet the CDC's needs.

CEDAC has been equally flexible identifying and assessing the needs for capacity-building among community-based organizations. Some ideas for needed services and specific topics for workshops have come from CDC requests, while others have come from CEDAC staff and board members. Staff of the Hilltown CDC praised CEDAC for its proactive style: CEDAC does not simply wait for requests from the field, but tries instead to determine what CDCs might need and to prepare to meet those needs. CEDAC staff members study successful CDCs to catalogue the skills and techniques those groups have used in achieving success; staffers then attempt to pass that information on to newer, less experienced CDCs.

Staffs of both CEDAC and established CDCs agree that CDCs need paid professional staff -- especially newer CDCs that do not have funded projects which can help support a core staff. New CDCs rely on board members and other volunteers to build up the organization and plan initial projects, but a staff person can speed the process. In Massachusetts, staffing for thirteen CDCs is currently provided through the CEED program, which is supported by state appropriations. (In past years, as many as 24 CDCs received CEED grants.) Without assistance from CEED, fewer CDCs would be able to profit from CEDAC's help. At the same time, the effectiveness of CEED-funded staff would be lessened by an absence of CEDAC assistance. Staffing a CDC -- especially a rural one -- can be quite an isolated undertaking; CEDAC can minimize that isolation by providing a sounding board for ideas, information on activities of other groups in the state, and technical support that the CDC could not otherwise afford.

CEDAC works closely with both CEED and CDFC, though there are periodic conflicts over ideology and turf among the three agencies. In several instances, CEDAC has funded feasibility studies of ventures which were ultimately funded by CDFC, and organizations currently receiving developmental assistance from CEDAC hope someday to qualify for CDFC resources. CEDAC also works closely with the Cooperative Extension Service, and particularly with its Arts Extension program, which attempts to help artisans to become self-supporting through business development assistance.

Assessment

CEDAC's services are an essential piece of the state's support for community-based economic development. Almost without exception, CDCs are low-budget organizations that could not affort to fill their technical support needs except through an agency such as CEDAC. And in the area of capacity-building, CDCs often do not recognize their true needs; they could flounder about for years without the guidance CEDAC offers.

It is too early yet to measure CEDAC's impact on CDC capacity. CEDAC itself is only two years old, and many of the CDCs it works with are also young. Since most of the more established CDCs are in urban areas, most of CEDAC's impact to date has been in cities. For example, CEDAC helped organize Boston Community Cable, a group of 10 Boston CDCs that purchased a significant ownership position in Boston's cable television franchise. The group stands to realize profits which it can reinvest in its neighborhoods, and it will also be able to negotiate for job opportunities and community access to the communication system.

Another success story occured in Franklin County (a rural county in western Massachusetts), where a CDC approached CEDAC for help in salvaging a local garment manufacturing plant that was about to go under. CEDAC helped the CDC to analyze the viability of the factory, and together they found a buyer for it. As a result, the factory was saved, and 70 jobs were preserved.

CEDAC's continued existence looked doubtful for a period this spring, when the legislature, faced with a tight budget ceiling, was hesitant about funding it and CDFC was debating the advisability of further contractual relations with it. Both sources of funding came through, however, and CEDAC is in relatively good fiscal shape for FY '82. Beyond that year, funding is still uncertain. But as CEDAC builds a stronger constituency among the CDCs it assists, it is in an increasingly powerful position for obtaining continued funding.

Community Development Finance Corporation

General Description

CDFC is an independent public corporation created by the Massachusetts legislature to provide equity and debt capital to businesses in economically depressed areas of the state. The rationale behind CDFC was twofold: (1) the state wanted to stimulate business development and job creation in declining urban neighborhoods and rural areas where private investment was lagging; and (2) it wanted to increase the involvement of residents in the economic betterment of their communities. To achieve the latter goal, the CDFC legislation permits investment only in businesses which are partly owned or controlled by community development corporations.

CDFC offers venture capital to new and existing businesses through three-way partnerships among CDFC, the business, and a CDC. CDFC can invest its money as debt (with negotiable rates and terms), as equity (the purchase of common or preferred stock), or as a combination of the two. It can also guarantee loans made by other investors. When possible, CDFC uses its money to leverage other private and public funds into its investments.

Although CDFC is required by law to invest in businesses which have a "reasonable expectation" of being "successful," it does not necessarily look for the highest monetary return. In selecting investments, CDFC considers the following factors as part of a "social rate of return" measure: (1) the investment must increase (or prevent the loss of) full-time jobs which pay at least 150% of the minimum wage; (2) the investment must benefit residents of the low-income target area in which the business is located; and (3) the business must show that it cannot succeed without CDFC assistance because of the unavailability of capital from traditional sources.

CDFC's 9-member board, which votes on all CDFC investments, is composed of three state cabinet secretaries and six gubernatorial appointees. Two of the six appointees must be experienced in investment finance, three must represent CDCs, and one must represent organized labor. The staff consists of 5 professionals and 2 secretaries.

CDFC was initially capitalized with $10 million in state funds. The state treasurer issued a $10 million general obligation bond and used the money to purchase all the corporate stock of CDFC. Interest earned on the stock is used to pay CDFC's operating expenses. After eight years, the state may sell its stock in CDFC if the state treasurer determines that there is a market.

Examples of CDFC investments to date include a $260,000 loan to Colonial Cooperative Press, Inc., a worker-owned book composition company, in conjunction with the Clinton CDC; a $75,000 debt and equity investment in Our Market, Inc., a supermarket (formerly owned by First National Stores) in Boston, in conjunction with the Codman Square CDC; a $90,000 debt and equity investment in Microdata Servicenter Inc., a microfilm/microfiche service company, initiated by the Greater Roxbury Development Corporation; and a $150,000 debt and equity investment in Conserve and Save Heat, Inc., a residential energy audit/retrofit company, in conjunction with the Neighborhood Development Corporation of Jamaica Plain.

Program Administration

During part of its first three years of operating from its Boston office, CDFC had a staff person from western Massachusetts on board who spent one day a week in that part of the state. More recently, CDFC has opened an office in western Massachusetts and increased its staff member's time commitment there to two days per week to try to generate more activity. To date, CDFC has invested in projects sponsored by two western Massachusetts CDCs, including one involving a rural CDC in Franklin County.

While CDFC is interested in serving the whole state, its first priority is funding viable business ventures rather than distributing its assistance evenly. Since most of the better-established CDCs are in the Boston area, CDFC's early investments were concentrated there.

Now that capable CDCs are becoming more numerous in western Massachusetts, CDFC has several possible projects under consideration in that area.

CDFC's biggest stumbling block to date has been the lack of CDC capacity for putting its resources to good use. Four of its early venture investments, in fact, ended in failure partly because the participating CDCs lacked the sophistication to make investments work. When CDFC was established, only a few CDCs in the state were eligible for its aid; CDFC staff members did their best to help develop the capabilities of other community-based organizations, but it was not until CEDAC and CEED became active that large-scale, effective capacity-building became possible.

Assessment

CDFC unquestionably provides a type of funding that would not otherwise be available. In fact, the existence of its capital pool is partly responsible for the creation of many new CDCs and the transformation of other organizations into the CDC form to enable them to qualify for CDFC financing. In Clinton, for example, a group of citizens formed a CDC specifically to obtain CDFC financing for the reopening of a plant that had closed.

The Massachusetts experience has shown that while a $10 million pool of capital tied to CDCs can spark the creation of CDCs, it is not sufficient in itself to turn those CDCs into capable, innovative agencies. An institution like CDFC is most useful when it can operate in conjunction with capacity-building and staff-funding programs like CEDAC and CEED. And even in a state like Massachusetts with a healthy tradition of community-based economic development activity, it took several years for local capacity to reach the point where it could use CDFC's resources effectively.

Since CDFC has invested less than half of its $10 million capital, its funding is secure for some time. Staff costs are easily borne by the interest CDFC earns on its noninvested capital, and a hefty principal is left for program investments. In fact, during its first two years of operation, CDFC was criticized for not putting its money into development programs quickly enough. (There were, as mentioned, only a few CDCs that were capable of working with CDFC at that time.)

Since CDFC got off to a slow start and had little luck with four of its early investments, an assessment of its impact would be somewhat premature at this time. CDFC's more recent projects show the variety of ways in which the agency can use its money to help CDCs develop their local economies. CDFC, for example, lent money to a CDC in Springfield to enable the CDC to buy into a large UDAG project; that in turn gave CDC a degree of control over the development process and allowed it to guarantee that part of the work under the project would go to minority contractors. In another recent case, CDFC helped a CDC to entice a high technology firm to relocate to and expand in an inner-city neighborhood. Staff believe that none of the deals CDFC has participated in to date could have been made without CDFC involvement.

In considering the replicability of CDFC in other states, the pivotal question is whether other states have a network of community-based development organizations sufficiently developed to utilize this type of resource. The answer, in most states: No. Another question goes to the suitability of the CDFC model for rural areas. The average CDFC investment has been between $100,000 and $300,000, coupled with an equal investment from other sources. While CDFC has been urged to make smaller investments, particularly in rural areas, the staff and board generally believe that such investments would not be cost-effective, since every deal (regardless of size) requires approximately the same amount of staff time.

The approach to economic development represented by CDFC and CEDAC has several strong points. The emphasis on job creation in depressed areas guarantees that resources will be targeted on the neediest areas and the neediest people. The emphasis on CDCs means that, in addition to developing the local economy, the approach helps build up the capacity and power of grass-roots, community-based organizations, and thus leaves behind a solid foundation for further activity in the community. Further, these institutions step in where the private sector on its own would fear to tread, and they leverage private investment for the creation of jobs.

The approach has not yet been fully tested in Massachusetts, since CDFC and CEDAC are only two and three years old, and many of the local CDCs are even younger. There have been notable results already -- horizons expanded for CDCs, businesses relocated in depressed areas, new business ventures started. This approach to economic development however, might be considerably less practicable in times of tight state and federal budgets. To support institutions such as CDFC and CEDAC, a state must have a strong commitment to building up community-based organizations. That commitment is likely to fade when the state is faced with cutting out or cutting back more established programs.

Whatever the future of CEDAC, CDFC, and similar institutions in other states, one point is clear: Rural areas present special challenges for community economic development. In Massachusetts, at least, rural areas require the availability of financing for smaller-scale ventures than urban areas, and the community organization process in rural areas is also more complex.

OKLAHOMA

THE MCGEE CREEK RURAL DEVELOPMENT DEMONSTRATION PROJECT

Background

The McGee Creek Rural Development Demonstration Project is an effort to create jobs in rural southeastern Oklahoma through the creation of small manufacturing firms. The seven counties involved are poor -- more than one quarter of the people are in poverty, and ten percent are unemployed. Per capita income in 1975 was $3,176, only 71% of the figure for Oklahoma as a whole. The many small towns with boarded-up stores and deserted homes testify to the unsuccessful attempts of the area to bring in new jobs and thus keep the people from leaving.

The McGee Creek Dam and Reservoir, a $113 million project of the United States Department of the Interior, rests in the middle of the seven-county area. This project was selected as one of the Carter Administration's demonstration sites in its rural initiative for area development through large-scale construction. As such, the seven-county area was targeted for increased federal dollars and visibility. Local leaders and planners consequently saw the project as an opportunity to try a new approach to job creation.

Though some new jobs had been created in the area by incoming branch plants and by the Corps of Engineers' Lake Texoma recreational project, economic development is no easy matter in this part of the country. Nor is the region abundant in natural resources. Realizing that traditional industrial recruitment had not proved to be an effective strategy, Congressman Wes Watkins and other area leaders hit upon the idea of developing small manufacturing firms which would concentrate on the commercialization of new inventions and the manufacture of new products under contract to larger corporations.

The overall goal of developing new businesses would be reached through a six-step process: (1) identifying marketable new products that could be manufactured locally; (2) "prototyping" -- testing and perfecting means of producing and marketing the products; (3) creating new business entities to manufacture the products; (4) training a labor force for the new manufacturing firms; (5) training and assisting managers for the new companies; and (6) securing resources for financing.

It would perhaps be helpful to discuss the foregoing terminology a bit at this point. "Commercializing" an invention refers to the process through which a new idea is transformed into an actual product capable of generating a profit. Many steps can be involved in this transformation -- assessment, redesign, financing, "prototyping," and marketing. "Prototyping" involves the manufacture of a small number of copies of the invention, so that the manufacturing process can be developed and improved and so there is a tangible product for use in test-marketing. Prototyping is thus essential for assessing the market and also for minimizing risks and costs once full-scale production begins.

The McGee Creek discussion will also involve one further term that may need elucidation -- "vendor contracts." This term does not belong to the commercialization process; rather, it represents an alternative strategy for economic development. Vendor contracts are agreements for the production of specific items to be sold to a larger manufacturing facility for that facility's use in its own manufacturing process.

Back to the project: Many local institutions are involved in the implementation of its six-step strategy.

ITRAD -- the Industrial Technology Research and Development Foundation -- was created in 1980 to identify, assess, improve on, and market new products. The state Department of Vocational and Technical Education has founded "incubators" at three local institutions in which prototypes of new products will be produced and workers provided with on-the-job training. The schools are also developing curricula in entrepreneurship and management. The Southern Oklahoma Development Association (SODA), which serves as a regional planning agency and staff for the local EDA economic development district, is helping local businesses develop supply contracts with a large Air Force base in the state. Southwestern State University is conducting research on means of using products and processes developed for NASA as sources of new industrial products. Oklahoma State University at Stillwater is developing a Productivity Center which will be able to assess the technological and management capabilities of new firms. Control Data Corporation will be providing a vendor contract through one of its subsidiaries, participating in training at the local vocational technical schools through its PLATO program, assisting in establishing a local SBIC, and researching the feasibility of building cattle feedlots and leather processing facilities in the region. Finally, the Business Assistance Center at the local university in Ada will be used for business support services, and a CDC -- the Rural Enterprises Development Corporation -- was recently established to coordinate the project components and to help arrange financing for new businesses.

Project Implementation

The following discussion will focus on implementation of the six major steps cited above. The components of the project, as will be evident, are at varying stages of development -- product identification, for example, has been under way for nearly two years, while the mechanisms for establishing and financing new businesses to manufacture the new products have not yet been fully conceptualized.

1. Product Development and Commercialization of Inventions. In seeking new products for local manufacture, the southeastern Oklahoma project relies on two sources: inventions recommended by ITRAD, and vendor contracts with large corporations or the government. ITRAD has a staff of nine and an operating budget of approximately $450,000. Its purpose is to identify ideas for new products, evaluate their feasibility, search out markets and financing, redesign the products if necessary, provide for prototyping, help establish manufacturing facilities, and provide managerial assistance. This past year, ITRAD was supported by grants from the National Science Foundation, EDA, NASA, and the Minority Business Development Administration. ITRAD hopes to become self-sufficient within five years through income generated from royalties and perhaps through equity positions taken in new firms in payment for its services.

ITRAD has two primary sources for ideas for new products. The first and most frequently used is the inventor himself. Though ITRAD has not publicly solicited product ideas, inventors from as far away as Japan have heard about its work and communicated by mail. ITRAD's second primary source for product ideas is a university program geared to the transfer of technology. KIAC -- the Kerr Industrial Application Center at Southwestern State University in Durant -- is the recipient of a grant from NASA to develop applications in rural areas for products and processes developed through NASA's space research.

All inventions submitted to ITRAD are evaluated through a computer program developed at the University of Oregon. The program ranks the product according to 33 criteria which, taken together, encompass functional, financial, marketing, development, distribution, legal, and environmental grounds. The program also carries out patent searches.

ITRAD is currently exploring the commercialization process for 30 products which have passed the initial feasibility tests. To date, ITRAD has carried one product through the entire development process. The product is a spare tire carrier which mounts on the bed or rear of a pickup truck instead of beneath the truck's body. ITRAD found a local machine shop which could construct a prototype. The inventor then signed a contract with ITRAD, which went on to market the tire carrier through more than 400 ranch and farm publications. The tire carrier is now being produced commercially.

ITRAD expects within the year to begin production of a cool air induction system designed to improve the efficiency and longevity of irrigation pumps. Research on this device, performed by an engineer in New Mexico, was initially supported through a $50,000 grant from the Department of Energy. That grant, however, was not sufficient to allow for the development of a prototype or for the establishment of a marketing program. ITRAD is currently developing a marketing plan for the invention, working with brokerage houses in Cleveland and New

York to secure financing, setting up a limited R & D partnership, and redesigning the product so that its applicability will be greatly expanded -- to auto engines, for example. ITRAD is considering assuming a 10-to-20 percent equity position in the local corporation that will be established to install and maintain the device, and taking a 3-to-6 percent royalty on sales. ITRAD is negotiating with the Choctaw Nation of southeastern Oklahoma for the establishment of a factory to produce the invention.

The other source of product ideas for new manufacturing firms is vendor contracts with large corporations or major government facilities that are willing to purchase items that could be manufactured in southeastern Oklahoma. To date, a staff person at SODA has learned how to bid on contracts at Tinker Air Force Base in Oklahoma City, one of the Air Force's largest maintenance and distribution facilities. Also, a subsidiary of Control Data Corporation has agreed to use one of the vocational-technical system's "incubators" for production of a subassembly part.

2. Product Prototyping. The area's three vocational-technical schools now have the capability, through a $670,000 grant from the national office of the Department of Labor and a small Governor's 4% grant, to manufacture prototypes for new products or for items to be produced under vendor contracts. A 4,800-square-foot block building was constructed with CETA-paid laborers at each of the three campuses. Each school hopes to use its incubator to develop prototypes for three products each year. Equipment is being provided through the initial grant and through the state Department of Vocational and Technical

Education's equipment fund. The incubator facilities were completed in February, and production of the subassembly part for Control Data and of a new plywood saw developed by ITRAD will soon be under way.

3. Creating New Business Entities. The goal of the McGee Creek Project is to create new businesses once the incubator facilities have had sufficient lead time for prototyping, training, and production. Ownership and financing of these new businesses remain open questions at this point, though project staff expect that the CDC will be involved in both ownership and financing.

4. Worker Training. The project plans to recruit CETA-eligible workers as employees for the manufacturing firms. The trainees will be given remedial instruction at the three vocational-technical schools and on-the-job training in the incubator facilities. Plans call for creating 54 new jobs each year -- five to six jobs for each of the nine products to be developed annually in the incubator facilities.

5. Management Training and Assistance. The vocational-technical schools are planning to establish a small business management program for prospective managers of the new manufacturing firms. Already, course components on free enterprise have been introduced to all students of the system, and materials on entrepreneurial development have been integrated into business curricula. Management assistance will also be available through the state university's Business Assistance Center at Ada and through the Productivity Center at Oklahoma State University, which is in the planning phase.

6. Financing. No special financing is currently available for establishing the new manufacturing firms. When ITRAD first opened,

EDA had indicated strong interest in funding a venture capital revolving loan fund. That funding, however, did not materialize. Though the Oklahoma Hills Development Corporation operates a loan fund in the area, almost all of its capital is currently committed.

To help meet the financial challenge, a CDC -- the Rural Enterprises Development Corporation -- was recently established. The new CDC is considering the formation of a SBIC, which, with SBA contributions, could make equity investments in the new manufacturing firms.

The CDC will also perform contracting and coordinating functions for the overall project. Under contracts with ITRAD, SODA, the universities, the vocational-technical schools, and other local institutions, the CDC can exercise oversight to ensure that necessary product development, prototyping, training, and support functions will be available to the nascent manufacturing firms.

Assessment

The McGee Creek Rural Development Demonstration Project is an innovative attempt to develop jobs in an area that has had little success in reversing an economic decline that began fifty years ago. Though several of the project's components have not yet been implemented, considerable progress has been made. Success to date has resulted from creative leadership, a broad, regionally based strategy, sufficient public subsidies, and interorganizational cooperation.

Much of the inspiration and support for the McGee Creek project has come from Congressman Wes Watkins and his staff. Described as "evangelically committed to rural economic development," Congressman Watkins conceptualized and secured support for ITRAD, the incubator facilities, and the community development corporation. Leadership has also been provided by officials of the two local economic development districts and by state and local representatives of the vocational and technical education system. The Assistant Superintendent of that system has personally assumed responsibility for the system's involvement in supporting the incubator facilities, developing curricula, securing vendor contracts, and participating in the community development corporation.

Credit is also due the first director of ITRAD. An engineer and inventor from Dallas, he succeeded in identifying a considerable number of marketable inventions and in attracting a highly qualified staff to a small, somewhat isolated city within a short time. He surpassed his own goal by overseeing the completion of the development of a product within the first year of operation. He believes that ITRAD is well on its way to attaining self-sufficiency within three to five years.

His general approach, however, is not without risks. The universe of potentially salable inventions is a large and complex one. Though ITRAD employs computerized technology search and evaluation mechanisms to help screen out infeasible inventions, its approach is still a time-consuming one involving many uncertainties. Furthermore, the director's engineering orientation seems to have led him to seek out inventions based on rather complex technologies, though lower-technology inventions may be more amenable to local manufacture. This tendency toward higher technology was perhaps aggravated by the director's lack of ties to the local area. He did not believe that the rural location of the effort mattered, except as a plus for the opportunities it afforded for cheap labor for the new manufacturing firms.

Considered by itself, ITRAD indeed has little relation to the surrounding rural areas. But taken as part of a larger scheme that encompasses the vocational-technical schools, the community development corporation, the universities, and the economic development districts, ITRAD becomes an essential tool for stimulating the development of new businesses in southeastern Oklahoma.

The commercialization of technology is not only risky, but expensive as well. It seems that a generous supply of initial public funding is necessary to implement a development strategy based on new product commercialization. Though ITRAD draws on university resources for technology transfer information, its evaluation, design, and marketing functions are performed by its own staff. It should be pointed out, however, that ITRAD could rely more on technology transfer than on inventors as a source for new product ideas. Such an approach to commercialization would be less expensive and time-consuming. It should also be noted that ITRAD serves a facilitative as well as a technical function -- securing machine shops for prototyping and lining up investors, for example. This function is just as important as technical evaluation and engineering, and certainly less demanding of money and technical know-how.

Public subsidies were also used for the creation of the incubator facilities at the vocational-technical schools. These facilities add a new component to the programs offered by many community college systems for providing in-plant training to prospective employees of new and expanding industries. The Oklahoma program provides training for the prospective employees of new firms before the firms have been established.

Federal dollars, however, have not been the sole support for this project. Since the Department of Labor contract expired in September, the state Department of Vocational and Technical Education has been paying the salaries of the coordinators at each of the three participating institutions. The state equipment pool helped to supplement the DOL grant for purchasing equipment for the incubator facilities. The Assistant Superintendent of the vocational-technical system is developing a slide show for use in raising money from foundations and from government agencies.

Some components of the project are designed for eventual self-sufficiency. As noted, ITRAD hopes to support itself through income earned from royalties and equity positions taken in companies that it assists. The technical schools hope that profits taken from goods produced in the incubator facilities will be placed in a revolving loan fund for use in re-equipping the facilities for future production. If a SBIC is capitalized by local investors and the SBA, it should provide equity for capitalizing the new manufacturing firms.

There are, however, a number of uncertainties in the McGee Creek project's funding picture. Though ITRAD has sufficient federal grants for FY '82, the dollars may not be available for the next year. Finding sufficient funds for supporting the incubator facilities and the related vocational-technical programs might also become a problem. But grounds for optimism are strong: if the leadership of this project has brought it along this far in less than two years, it seems reasonable to assume that the leadership can carry it further.

It is too early to assess the overall impact of southeastern Oklahoma's strategy or to evaluate its effectiveness with a high degree of confidence. Suffice it to say that the approach is an innovative response to the problems of a region with few natural advantages. The response entails risk, though the concurrent attempt to secure vendor contracts for local manufacturers reduces that risk. The response also entails considerable expenditure, though much expense can be covered from the pooled resources of local institutions. The southeastern Oklahoma project certainly embodies a strategy that bears watching.

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Materials (brochure and internal documents) prepared by staff of ITRAD.

APPENDIX

EXHIBIT 1

THE NORTH CAROLINA RURAL EMPLOYMENT LABORATORY

The North Carolina Rural Employment Laboratory began in 1978 when the state and national administrations agreed that North Carolina would serve as a rural laboratory -- a testing ground for improving federal-state cooperation in the provision of services and economic development assistance for rural areas.

This agreement was part of a general federal effort to increase the effectiveness of rural programs through linkages among federal programs, cooperation between federal and state government, targeting resources to meet specific rural needs, and stimulating private development through public investment. At the federal level, agreements were signed between such departments as Health, Education, and Welfare (now Health and Human Services), Housing and Urban Development, and Labor. Joint state-federal rural development councils were established in many states to promote intergovernmental coordination, and agreements were signed between individual states and the federal Farmers Home Administration. North Carolina was designated a demonstration site for several of those efforts; additionally, the state was the scene of a number of state and locally initiated rural development projects. Each of those projects had as a goal the creation of unsubsidized jobs for the unemployed and underemployed in rural areas.

During 1979-81, MDC acted as both a facilitator and monitor for the Rural Employment Laboratory projects. As a monitor, MDC followed the progress of the projects by talking regularly with project staff and other key actors in the public and private sectors. As a facilitator, MDC helped to open and smooth communication between agencies which had no experience working together and between government agencies and the private sector. MDC,s findings and analyses were presented in its First-Year Final Report on the North Carolina Rural Employment Laboratory (May 1980), and in interim reports entitled Facilitator's Role in Collaborative Rural Development: The North Carolina Rural Employment Laboratory (November 1980 and May 1981).

Projects included in the Rural Employment Lab during 1979-80 were:

-- FMHA-North Carolina Agreement and the Rural Development Coordinating Committee. The Farmers Home Administration and the North Carolina Department of Natural Resources and Community Development entered into an agreement to target FmHA and state resources to rural areas according to the state's Balanced Growth Policy. The Rural Development Coordinating Committee, composed of federal, state, and local government representatives, was created to monitor the FmHA Agreement and to improve coordination among rural development programs.

-- Western North Carolina Tomorrow. A two-year-old council of leaders from North Carolina's seventeen westernmost counties, WNCT employs the resources of Western Carolina University in addressing regional development problems.

-- Graham County Railroad. A locally initiated county development corporation which, with the help of a local university, solicited support from federal, state, local, and private sources to rebuild the only railroad connecting the county's industrial center to the major railroad interchange in the area.

-- Wanchese Harbor Development Project. The State of North Carolina and Dare County, with the support of several federal agencies, undertook a joint effort to develop a modern seafood handling and processing facility at Wanchese. An apprenticeship program was developed to train local residents for the new jobs that will result from the project.

-- Rural Transportation Initiative. North Carolina was one of 14 demonstration states under a White House interagency initiative which linked CETA-funded jobs with rural transportation projects funded by the Department of Transportation.

The emphasis was on placing CETA-eligible older workers in jobs in DOT-funded bus systems in small towns.

-- Rural Health Initiative. North Carolina was a demonstration state for the interagency agreement between DOL and HEW to train migrant and seasonal farmworkers to work in community and migrant health centers. DOL agreed to recruit eligible trainees and to cover training compensation for participants. HEW agreed to provide training and placement in entry-level jobs.

-- Water and Sewer Initiative. North Carolina was one of 14 demonstration states for the interagency agreement between DOL and EPA to train new workers in water and wastewater treatment occupations and to upgrade the skills of selected workers presently employed in the field. The National Rural Water Association, a subcontractor of EPA, worked with the North Carolina Balance-of-State CETA prime sponsor to fill the job slots with unemployed, economically disadvantaged rural people.

-- HUD Rural Initiative. North Carolina was one of two demonstration states in a program designed to make housing and community development programs perform better in rural areas. Federal, state, regional, and local agencies were involved in the program, which tested the effectiveness of alternative technical assistance delivery systems in fourteen small communities.

-- Welfare Reform Demonstration. Three rural North Carolina counties were selected as a demonstration site for a national welfare reform demonstration. The objective of the project was to move poor people from public dependence to self-sufficiency through employment, with the additional goal of providing needed community services through the employment of participants.

-- Chowan Basin Wastewater Management Project. This project was a cooperative attempt by 13 small communities, the State of North Carolina, and a state university to design a regional model wastewater treatment system. The project included the design of a curriculum for training local residents as operators.

-- Albemarle Basin Project. The project was a unique approach to plan the development of a multi-county area, focusing on the existing natural resources. The Albemarle Center, the physical base for the administrative and operational components of the project, was to coordinate a variety of human service programs, help entrepreneurs develop new business ventures, and stimulate demand for locally produced goods and services.

In 1980-81, the last four projects (HUD Rural Initiative, Welfare Reform Demonstration, Chowan Basin, and Albemarle Basin) were eliminated from the Rural Employment Laboratory study because they were no longer active. Also, two additional North Carolina projects were added to the study:

-- Employment Initiatives. Interagency agreements between the Department of Labor and the Economic Development Administration mandated that a percentage of new jobs created through federally assisted development projects be reserved for the long-term unemployed. MDC monitored the implementation of these agreements in North Carolina.

-- State Rural Development Corporation. North Carolina initiated a planning process for the creation of a new institution to spur job creation in depressed rural areas. MDC monitored the progress of this effort and provided technical assistance.

EXHIBIT 2

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